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MANAGING YOUR BUSINESS

Sam Walton hopes that Wal-Mart's "partnership" approach with employees will be adopted by outside suppliers to his Buy American program. (Cover Story, Page 18)



PHOTO: JIM KNOWLES-PICTURE GROUP

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Sam Walton built a retailing powerhouse with his Wal-Mart discount stores, and now he shows how to stem the tide of imports by keeping more manufacturing jobs in the States.

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Computers make exporting easier for small firms by cutting the paperwork.

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Art: Dale Glasgow; Photo: Marc Francesc—Gamma-Liaison

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Dallas furrier Elizabeth Hirsch doesn't mind that her ex-husband's name is on the door; she owns and runs the place. (Women's Business, Page 59)



PHOTO: PETER POLLOCK

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Driven by memories of childhood poverty, auto dealer Sam Johnson created a business empire centered on service for car buyers. (Making It, Page 67)



PHOTO: NANCY PIERCE

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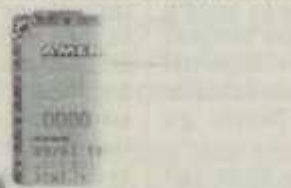
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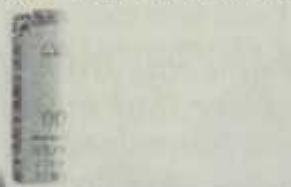
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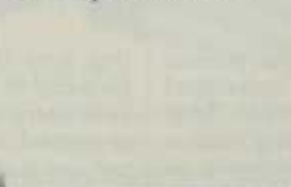
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Surviving A Start-Up With Sleeves Rolled Up

By Ripley Hotch

Have you ever wondered, reading these pages, if anyone here really understands what the small-business person goes through? If so, it may hearten you to learn that more than a few of us are, in fact, small-business people ourselves.

Most of us who write about business admire the person who tries to build a business—and many of us are tempted to give it a try. We're not impartial about business here, and it is valuable to know what business people go through.

Going through a start-up gives you 10 times more understanding in a 10th

plying with local, state and federal regulations; setting up legal structure; establishing unemployment, Social Security and workers' compensation accounts for employees; getting employer identification numbers; tax reporting at city, county, state and federal levels; applying for business licenses, with the inspections required; arranging for banks, accountants, lawyers, consultants; arranging financing; rearranging financing; finding liability insurance; setting up accounts for vendors, utilities and services; setting up your book-keeping system.

And there's the physical labor of get-

On the other hand, strange rumors abound. One night we got a call from a friend and fellow business person: "Did you guys buy 10 acres off the Inwood exit of I-81? I heard you were going to build a shopping center." It would concern this friend, who owned a shop at the nearby factory-outlet center.

But that same friend has taken a solicitous interest in our venture. And he has taught us that you cannot be a business person in isolation from your community or state.

For example, in pressing toward our opening day, we concentrated so much on the requirements of the health department that we forgot about the fire department. It turns out that in West Virginia the fire code does not exempt historic buildings. We were going to have to put in a sprinkler system, said the local fire chief—no matter that the exterior walls of the house were 2½ feet of stone and the interior walls were plaster over brick. The proposed work would have destroyed the historic value of the mansion—the major reason our customers were coming. What to do?

Our friend informed us about legislation that would offer some alternatives to the strict code—told us what legislators to talk to, and urged us to organize other innkeepers to bring about the changes. Our insurance agent volunteered to testify in the state capitol. And because the state is small, we found tremendous help from the staffs of the state commerce department and its department of culture and history.

The end result? We have, in a sense, become trailblazers for the adaptation of the state fire code for historic buildings.

We say it often in these pages, but once you live it, you really understand how important it is to get involved in politics and the formation of policy in your town or state. Small business can't exist in a vacuum.

And our business really is off the ground—still losing money, but gaining satisfied guests with each month, and enjoying a growing word-of-mouth reputation. Now we must learn how to grow without being overwhelmed by (we hope) success. For my part, I'm going to reread some back issues of *Nation's Business*. ■



I can now say, from the heart, that it is no wonder that most businesses fail... The work involved is enormous... If small-business people are not the heroes of this economy, nobody is.

the time than regarding the process from outside. Our job is to understand and interpret, not merely report from the sidelines. Understanding means feeling the heartbeat of business on your own pulse. Some such thinking as this was behind my own decision to take the plunge, and I must say that writing about something and doing it really are two different things.

My partner and I had long planned to open a bed-and-breakfast inn, and had found what looked like the ideal property at a decent price within a two-hour commute of Washington. It was Boydville, a 175-year-old stone mansion in Martinsburg, W.Va., which had escaped too much modernization.

Our plan was to rent out seven of its bedrooms. I would keep working at *Nation's Business*, and eventually the business might bring a good sale price or at least provide extra income or an investment for retirement.

I can now say, from the heart, that it is no wonder that most businesses fail; it seems to me a wonder that any of them succeed.

The work involved is enormous: com-

ting your facility in shape (or getting someone to do it); learning how to run your operation; marketing your product or service; hiring and handling personnel; and learning to deal with the seemingly endless stream of irritations, breakdowns, missed deliveries, complaints, requests for donations and political encroachments (what new tax will be laid on your business this year?). And that's just the start-up.

After all that, you must greet the public with a smile and a great product or service at a great price—and keep doing it day after day, year after year.

Big businesses have staffs to help with such details. Small-business people have to do it all themselves. If small-business people are not the heroes of this economy, nobody is.

But there are unexpectedly pleasant surprises, as well as some unpleasant.

I, for one, like doing business in a small town. Other merchants are generally pleased to have you ("I bet you'll bring a lot of those Washington folks out here to see us") and will take your word that you'll honor a charge account.

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Letters

Telemarketing

Sharon Nelton's commentary "Don't Call Me; I'll Call You" [February] speaks a total lack of knowledge about a major American industry.

I am a telemarketer. My clients include corporations, public-relations firms, labor unions and politicians. My firms employ more than 200 permanent employees and, in a good year, more than a thousand temporary employees in Washington, Nashville, Seattle and other cities. We also put a lot of money into the pockets of our nation's phone, computer and paper industries as well as into the pockets of many smaller businesses.

The telemarketing industry cannot

do its job if it calls people only during the day. Employers do not like employees to be disturbed at work, and many workers have no access to a telephone. Nor can the job be shifted to direct mail. Anyone who understands the dynamics of phone and mail communications would know that.

Just because Ms. Nelton does not like being called does not mean everyone feels that way. We often have a much harder time getting people off the phone than getting them on it.

Mac Hansbrough
National Management
Associates, Inc.
Washington

Thank you Sharon Nelton. My sentiments exactly, and I thank you for expressing them in an article, having never taken the time to do so myself.

Jean King
Quincy, Ill.

If I had the ways and means, I would syndicate Sharon Nelton's article to ev-

ery magazine, newspaper and trade journal in the country, and I would send it to the presidents and CEOs of all the businesses that use consumer telemarketing. I would even try to call all those presidents and CEOs myself, but I guarantee they all have unlisted phone numbers to protect their privacy from the onslaught of telemarketers.

Marilyn S. Langer
Burke, Va.

May I suggest, Ms. Nelton, that you get an unlisted number. You could also buy an answering machine and take only the calls that you choose.

Angel A. Waldron
Carrollton, Tex.

Sharon Nelton's article hits the nail right on the head. She said it all, and for the reasons she states in her commentary, I now use my answering machine during the evening hours, thereby eliminating nuisance callers.

Jean A. Dunnigan
Fairfax, Va.

Thank you for your commentary. There is nothing worse than sitting down to dinner and being interrupted by a caller offering to sell you something you do not want.

Bruce T. Mitchell
San Francisco

I get at least 10 calls per week from telemarketers. Once I asked a caller how he got my name. He said he paid \$10 for it. I told him that he had wasted \$10.

C.E. Norris
Roanoke, Va.

Because I am a secretary, a telephone plays a major part in my daily activities. When I reach home in the evenings, a telephone call from a salesperson is the last thing I want to handle.

Joyce A. Stephenson
Pittsburgh

Had Nelton considered her subject from a small-business standpoint, she would have noted that telemarketing is an important promotional medium for businesses with limited financial resources.

Sixty-three percent of my company's new business leads for 1987 resulted directly from telemarketing efforts.

Nelton suggests the use of a standard response to a telemarketing call: "I do not make decisions like this over the telephone. If you would like to send

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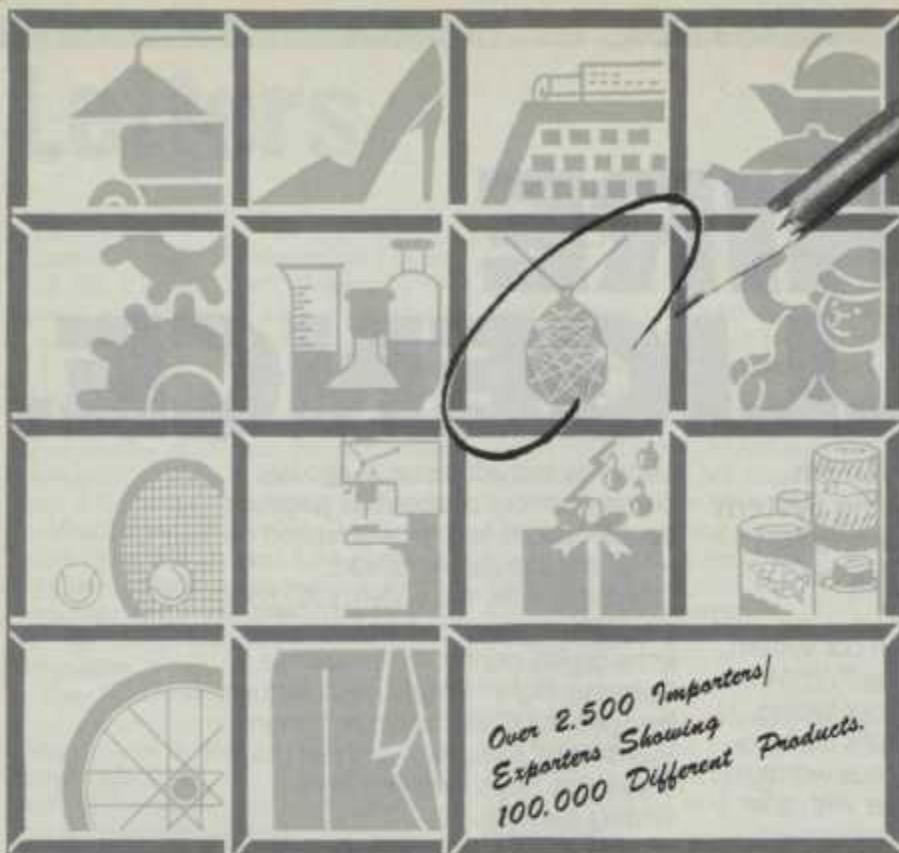
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COMMENTARY

Letters

me something through the mail, I'll be glad to take a look at it." This is a reasonable proposal.

Any legitimate organization would certainly send written literature. After all, telemarketing is only a means to locate the potential customer.

*C. Renea Hornback
Memphis*

I'm more annoyed by business telemarketing than by personal, although I detest both. I run four companies, and I'm afraid not to respond for fear that it might be a customer.

*David Massie
Corpus Christi, Tex.*

I consider telemarketing an invasion of my privacy, and I make a point of never buying things sold on the phone.

*Carolyn Miles
Blue Point, Long Island, N.Y.*

Telemarketing has been a complete nuisance to me, both at home and at the office. Most of the calls are from very insistent salespeople. I have gone so far as to hang up in the middle of a very one-sided conversation, only to have the salesman call right back to confront me about hanging up.

*Nancy J. Smith
Oklahoma City*

Your commentary is right on target. I look forward to reading further articles on how modern communications technology has resulted in an increase in abuse and harassment.

*Jon L. Allen
Dallas*

Desperately Seeking a Chance

I find it hard to believe that there are employers having problems finding and keeping good workers ["Desperately Seeking Workers," February]. March, 1988, marks one year of unemployment for me.

All I ask for is a chance. I'm looking for a career, but I'll settle for a job.

*Edward Daniels
Tyler, Tex.*

An Economical Advertising Alternative

My attention has been called to your October article "Is It Time For An Ad Agency?" The article states that a simple black-and-white ad in a newspaper can cost hundreds of dollars in addition to the cost of buying space because such ads may require the services of a typesetter and a graphic artist.

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COMMENTARY

Letters

vide their local advertisers with all the services required to produce a finished ad. When a business retains an ad agency, the agency is usually compensated by a fee rather than by a commission on space charges, but the newspaper's charge to the advertiser is the same as when it prepares the ad directly.

The agency fee is actually a substitute for the time that would otherwise be spent by the advertiser's own staff in preparing the ad.

Leo Bogart

Executive Vice President and General Manager

*Newspaper Advertising Bureau, Inc.
New York*

Helping Entrepreneurs

The November article "How to Find Under \$1 Million" listed the Indiana Seed Capital Network as one of several programs in the nation matching entrepreneurs with private investors.

Since this issue was distributed, we have received over 180 telephone calls and 80 letters and business plans from entrepreneurs across the nation.

The ISCN is managed by the Indiana Institute for New Business Ventures, Inc., a private not-for-profit corporation funded by the Indiana State Legislature.

Both the Indiana Institute for New Business Ventures and ISCN have limited the scope of their programs and services to entrepreneurs and emerging businesses domiciled within the state of Indiana and to investors seeking opportunities for investment within the state of Indiana.

Although many of the opportunities appeared to have merit, we could not provide assistance because of our limited scope of service.

I would encourage your readers to seek assistance through their state departments of commerce or the Small Business Development Centers cosponsored by the Small Business Administration in many states.

John E. Ridder

Business Assistance Manager

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Small-Business Update

By Joan C. Szabo

Business Failures Decline

The business-failure rate is declining after eight years of increases, the Dun & Bradstreet Corporation reports.

The number of business failures in 1987 fell to 61,236 from 61,601 in 1986, preliminary figures show. In contrast, failures increased by 7.6 percent in 1986 and by 9.9 percent in 1985.

The turnaround is an outgrowth of the economic situation, says Joseph W. Duncan, D&B's corporate economist and chief statistician. "The current pattern of business failures underscores the fundamental strength of the U.S. economy," he says.

The failure statistics include bankruptcies, foreclosures and court-ordered receiverships. Most of the firms that ceased operations are small to medium-sized.

Only two industry sectors—services and agriculture—reported an increase in business failures. Failures in the service field increased 14.6 percent, and in farming they rose 42.9 percent.

Business failures in the service field reflect increased competition and falling demand as many large firms cut spending on services in connection with cost-control efforts.

The substantial growth rate of failures in agriculture is a direct result of the introduction of Chapter 12 of the bankruptcy code in November, 1986, Duncan points out.

Chapter 12 protects family farmers from creditors while they reorganize their debts. Before Chapter 12, most farmers had no choice but to liquidate assets to meet creditors' demands.

By region, the Pacific states reported the largest decrease in failures, down 8.4 percent to 12,449 from 13,597. Substantial declines in failures occurred in Washington, Oregon and Hawaii.

Failures in the South Atlantic states posted the largest increase among all the regions in 1987, up 11.4 percent.

In New England, which led the current economic recovery, failures were down 6.3 percent. Significant decreases were reported in Connecticut.

In the Mountain states, business fail-

The Business Failure Rate By Industry

| INDUSTRY | Number of Failures in '86 | Number of Failures in '87 (Preliminary) | Percent Change |
|---------------------------------|---------------------------|---|----------------|
| Agriculture, forestry, fishing | 2,647 | 3,783 | +42.9 |
| Services | 20,966 | 24,029 | +14.6 |
| Construction | 7,110 | 6,724 | -5.4 |
| Manufacturing | 4,776 | 4,317 | -9.6 |
| Finance, insurance, real estate | 2,778 | 2,492 | -10.3 |
| Retail trade | 13,623 | 12,185 | -10.6 |
| Wholesale trade | 4,865 | 4,304 | -11.5 |
| Transportation, utilities | 2,565 | 2,240 | -12.7 |
| Mining | 923 | 622 | -32.6 |
| Unclassifiable establishments | 1,348 | 540 | -59.9 |
| Total | 61,601 | 61,236 | -0.6 |

SOURCE: THE DUN & BRADSTREET CORPORATION

ures were down 0.6 percent. And in the industrial states of the Midwest—Illinois, Indiana, Michigan, Ohio and Wisconsin—the overall rate of failures decreased 0.9 percent. The biggest drop was posted in Wisconsin, where failures declined 20.9 percent.

Duncan says that the industrial Midwest "will be one of the bright spots in 1988 as exports play an increasingly important role in contributing to total U.S. economic growth."

From Exec to Entrepreneur

The number of discharged managers who have started their own businesses has increased dramatically, according to a new survey by Challenger, Gray & Christmas, Inc., an outplacement consulting firm in Chicago.

"Our survey indicates that one in every five or six discharged managers is going into business for himself, compared with 1 in 14 in 1985," says James E. Challenger, founder and president of the company.

The results are based on a survey of 600 managers discharged from companies with sales volumes ranging from \$30 million to over \$1 billion.

Challenger says one factor contributing to the growing trend of becoming your own boss has been the Reagan administration's emphasis on entrepre-

neurship. "The administration has promoted individualism, thrift and other characteristics of the free-enterprise system," he says.

In addition, he believes today's would-be entrepreneur is likely to have a smoother path if he or she has support from a working spouse. "The spouse who also works is familiar with the ways of business and is not likely to complain about long working hours and periods away from the home to run a business."

Banning Polygraphs

A business coalition spearheaded by the U.S. Chamber of Commerce is hoping for a presidential veto of legislation that would bar private-sector polygraph testing of job applicants.

The Senate recently passed a polygraph bill by a vote of 69 to 27; the House approved a tougher version in November. After differences between the two measures are reconciled in a Senate-House conference, the legislation will be sent to President Reagan.

"The U.S. Chamber is mobilizing members to urge the President to veto the bill," says Roger Middleton, the Chamber's counsel for corporate policy.

The polygraph has become an invaluable tool for business in deterring workplace crime and identifying securi-



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SMALL-BUSINESS UPDATE

Nicholas Brady, chairman of the White House Task Force on Market Mechanisms, and Federal Reserve Board Chairman Alan Greenspan

testifying before the Senate Banking Committee on the October, 1987, stock-market crash. Greenspan said the Fed opposes Brady's proposal that

a federal information agency collect detailed trading data in order to monitor market developments and identify abuses.



PHOTO: TERRY ABE



ty risks among job applicants, says Albert D. Bourland, the U.S. Chamber's vice president for congressional relations. It is estimated that employee theft increases the cost of goods sold to consumers by as much as 15 percent.

One employer, Days Inn of America, told a congressional hearing that polygraph testing has helped to reduce the cost of employee theft by more than \$1 million a year.

The polygraph is useful in other ways, Bourland notes. Day-care centers, for example, must be able to screen job applicants in order to try to avoid hiring anyone who might later abuse children. "Public-utility companies, chemical plants, airlines and railroads are only a few examples of the industries that need to be able to screen prospective employees to help avoid public disasters," he says.

How Costly Are Mandated Benefits?

Annual labor costs paid by business are expected to increase substantially if Congress passes four specific bills that require employers to provide additional benefits to their employees.

The measures center on mandated health insurance, family and medical leave, advance notice of plant closings and high-risk occupational disease notification and prevention.

The increase in labor costs would range from \$39.8 billion to \$47.8 billion a year, according to a recent study by Robert R. Nathan Associates, Inc., an economics and public-policy consulting firm in Washington.

The study was prepared for the National Foundation for the Study of Employment Policy, an educational organization that receives support from other foundations and from U.S. companies.

Following is the total estimated labor cost that business would have to pay for each piece of legislation if it becomes law:

- \$32.8 billion to \$38.8 billion a year for mandated health insurance.
- \$200 million to \$600 million a year for health-insurance costs for families and for medical leave.
- \$5.8 billion to \$6.4 billion a year for high-risk occupational disease notification.
- \$1 billion to \$2 billion a year for the measure that would require advance notice of plant closings.

A separate Nathan study on the impact of legislation that would raise the federal minimum wage indicates that 882,000 jobs would be lost by 1990 if that measure wins approval.

Information Sources For Small Firms

Small-business owners rely on a wide range of information sources for making business decisions, according to a survey by the National Small Business Attitudes Panel. The panel consists of a representative sample of the 16 million U.S. small-business owners nationwide. All of the respondents are owners, partners, presidents or CEOs of their businesses, and they also served as delegates to the 1986 White House Conference on Small Business.

The panel has been assembled by Cicco and Associates, Inc., a Murrysville, Pa., management-consulting firm.

Newspapers topped the list of the most frequently used external information sources for small-business leaders. In second place were professional advisers such as accountants and attorneys. Magazines came in third in a tie with the category of other small-business owners. All four information

sources were described as "used regularly."

Sources receiving "occasional use" were newsletters, seminars, books, TV news, radio news, computer databases and government publications. The survey found that government publications were used the least.

Prime Rate And CPI

The prime rate should trend downward throughout next year, while the consumer price index will drift higher, the Forecasting Section of the U.S. Chamber of Commerce says in its latest economic outlook. The business organization's forecasters, whose 1987 outlook proved one of the most accurate of all the forecasts issued in the public and private sectors, expect a prime of 8.3, 8.2 and 7.9 percent, respectively, in the remaining three quarters of this year. After a tick up to 8.1 percent in the first quarter of next year, it should stabilize at 7.9 for the remainder of the year, the Chamber forecasters report. The prime rate was 8.9 percent in the last quarter of 1987.

The CPI, which was 4.9 percent in the second quarter of 1987 and 3.6 percent by the end of the year, is expected to be 4.0, 3.9 and 4.2 over the next three quarters of this year and to keep moving up to 4.6, 4.8, 4.9 and 5.1 in the respective quarters of next year, with the average for 1989 under 5 percent.

Chamber forecasters said that a factor in that rise will be continuing increases in the prices of imports as a result of the weaker U.S. dollar.

As the dollar falls and foreign currencies strengthen against the dollar, the prices of imports rise. Many foreign companies shipping products to the United States have absorbed—at the expense of profit margins—substantial



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SMALL-BUSINESS UPDATE

amounts of the cost increases brought about by the shift in exchange rates. They are expected, however, to begin passing on more of those costs, with American consumers paying more for imported goods. That development will be reflected in the CPI.

Dwindling Numbers On The Farm

The Census Bureau has confirmed what small businesses in the farm belt know very well: The number of Americans on the farm continues to drop rapidly. The total fell to below 5 million last year, the lowest number in at least a century.

The Census Bureau estimates that 4,986,000 people lived on farms as of 1987, 240,000 fewer than in 1986; it was the smallest total ever recorded.

The number of Americans on the farm reached a peak of 32.5 million in 1916 and stayed near 30 million until World War II, when the numbers began to decline steadily. The total fell below 30 million in 1942, dropped under 20 million in 1953 and fell below the 10 million mark in 1970.

The 1987 figure indicates that about 2 percent of the nation's population lived on farms.

Many Firms Ask About ConSern

Nearly 3,900 companies have contacted the Washington-based ConSern organization in recent weeks to obtain more information about its education-loan program for employees. ConSern is a private-sector loan program designed by a consortium of universities, backed by major financial institutions and administered by a nonprofit organization.

Under a new effort by the U.S. Chamber of Commerce to extend the program to the business community nationwide, any company can participate in ConSern through membership in the U.S. Chamber.

The U.S. Chamber's recent agreement with ConSern was described in the February issue of *Nation's Business*, and since then "the response has been truly dramatic," says the Rev. John P. Whalen, ConSern's founder and president.

ConSern loans offer low interest and are unsecured. They cover a wide range of education-related expenses, including tuition, room and board, books and computers.

ConSern loans also may be used to refinance existing education loans from

Quoteworthy

"President Reagan is going to have to use his veto pen often this year on labor bills passed by Congress. It's going to take the all-out effort of the business community to sustain some of those vetoes."

—Rep. Trent Lott (R-Miss.), House Minority Whip, speaking to a business audience.

"No change in the budgeting process is a substitute for having the will to make a change. Gramm-Rudman-Hollings, the balanced-budget amendment—all will be thwarted if you don't have the will. Now the

President has asked for a partnership and we will probably have a better process."

—Sen. Lawton Chiles (D-Fla.), chairman of the Senate Finance Committee, addressing a U.S. Chamber of Commerce conference for business editors of newspapers and magazines.

"I see no difference at all between stealing the patent for a product and stealing the product itself. . . . Thievery is thievery."

—U.S. Trade Representative Clayton Yeutter, in releasing the results of a year-long study by the International Trade Commission on the counterfeiting of U.S. copyrights and patents by foreign competitors.

other sources; the applicant must have a good credit rating.

ConSern fills an important need that is not being met by most government financial-aid programs, which often are available only to families with very limited financial resources.

With ConSern there is no maximum family income test. And ConSern's loan limits are much higher than other education-loan limits—from \$1,500 to \$25,000 per borrower each year.

From an employer's standpoint, participation involves distributing information to employees and maintaining

membership in the U.S. Chamber. In addition, there is a small annual participation fee. But that fee can be as low as \$25 for companies with 10 or fewer employees.

An employer is not required to handle applications, process loans, guarantee loans, turn down or approve employee loan requests or assume liability for employee loan defaults.

For information on the program, call (800) 338-7196, or write to U.S. Chamber ConSern: Loans for Education, 1717 Massachusetts Avenue, N.W., Suite 601, Washington, D.C. 20036. ■



Free Money For Small Businesses and Entrepreneurs provides information on the often-overlooked providers of start-up capital, research grants, expansion funds, operating assistance and more. Over 300 sources are listed, including foundations, federal programs, state and local government agencies and private funds.

Regional listings are broken down by state. Also outlined are funding opportunities for minority ventures, including enterprises under black,

Hispanic, American Indian or female ownership. The paperback is \$12.95 from John Wiley & Sons, 605 Third Avenue, New York, N.Y. 10158.

If you are thinking about buying or selling a small business, a new publication, *How Much Is Your Business Worth?*, could help you determine the correct value of the firm.

The 50-page booklet provides easy-to-understand formulas and worksheets that take into account the intangible value of the business as a "going concern" as well as its fixed assets.

It also provides information on five methods of valuation, including book value and capitalization of earnings.

The guide is \$15 from Law Forum Press, 2318 Second Avenue, Suite E, Seattle, Wash. 98121.

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Other copiers.

The Xerox 1012 Marathon.

Walton's Mountain

By Michael Barrier

Outside, it is high summer in northwestern Arkansas. The temperature is pushing 100 degrees, and this is not a dry southwestern heat, but the unctuous kind that crawls all over you the second you step outside the door.

Inside, it is Christmas.

The building looks like an abandoned storefront—its plate-glass windows have been painted over—but this is a historic site in retailing. Twenty-five years earlier, Sam M. Walton opened his first Wal-Mart discount store here, on U.S. Highway 71 as it passed through Rogers, Ark.

"Old No. 1" has since been joined by more than 1,100 other Wal-Mart Discount City stores. Wal-Mart Stores, Inc., is now headquartered in a sprawling red-brick building that dominates the small town of Bentonville, just northwest of Rogers. The Rogers store itself has moved to much larger quarters a block down the street.

On this last day of July, though, Old No. 1 has come back to life as something resembling the Wal-Mart store it once was. Christmas decorations and potential gifts—microwave ovens and the like—fill racks and counters, with almost everything arranged as it will be in the stores in a few weeks. (Wal-Mart will send photographs of the displays to every store, so that the managers can follow the photos when they are setting up their own displays.)

Dozens of district managers and other Wal-Mart executives, including Sam Walton himself, are scrutinizing the goods and peppering the merchandise buyers with questions and, sometimes, complaints.

Walton, the company's 69-year-old chairman, takes special pride in one item of Christmas merchandise: a small table in the Queen Anne style. This is not an elegant piece—it has a wood-grained Formica top—but, rather, sturdy furniture that will fit comfortably in the modest homes where so many of Wal-Mart's customers live. In any event, what Walton likes most about



PHOTO: WESLEY HITT—BLACK STAR

Wal-Mart has grown into a retailing powerhouse, but its founder wants to see more American-made goods moving across its checkout counters. Here is how one company is trying to save U.S. jobs.



For shirt manufacturer Farris Burroughs (with employees Tereasia Davenport, left, and Joye Gail Cook), Wal-Mart's Buy American campaign has meant a tripled payroll.

this table is not how it looks, but where it was made.

The previous year, Wal-Mart sold a similar table that was made in Taiwan. The new table was made in Mississippi; and Wal-Mart is paying \$4 less for each one than the \$42 it paid for each Taiwanese table. Wal-Mart is spending about \$3.5 million on the Mississippi-made tables (which it will sell at retail for \$70 apiece). By Walton's reckoning, that \$3.5 million translates into close to 100 American jobs that otherwise would have gone overseas.

For Wal-Mart, deciding to sell the American table, instead of the Taiwanese, was not simply a matter of lining up the two tables, comparing their looks and their prices, and then going with the domestic product. Rose Hill Company, an Okolona, Miss., manufacturer, did not make such tables until Bill Smith, a Wal-Mart buyer, took one of the Taiwanese tables to Mississippi and asked Rose Hill to come up with a table like it. Beyond that, Wal-Mart committed itself in ways that let Rose Hill operate more efficiently—and thus keep its price to Wal-Mart lower than the import price.

"Bill helped develop the item, with the factory," Sam Walton says, "and they now know we're going to buy three or four million dollars' worth. They've bought their raw materials in quantity, and we pay them on time, so they're able to get their costs down. If all of our retailers in this country had done the same thing before they went running off overseas, if they had worked with our manufacturers, they could have done this in a lot of instances—we could, and a lot of other folks could. And, of course, we're doing it now."

Wal-Mart carries growing weight with manufacturers. It is now the coun-

COVER STORY

Walton's Mountain

try's third-largest retailer, trailing only Sears, Roebuck and K mart Corporation. In the fiscal year just ended, sales rose 34 percent—to around \$16 billion—from the year before. In addition to its Wal-Mart Discount City stores, the company owns around 90 Sam's Wholesale Clubs and two of the huge new hypermarkets.

And yet Wal-Mart operates in only 24 states, with its stores concentrated in economically wobbly Mississippi Valley and Gulf Coast states (Texas has more than 200).

A majority of Wal-Mart's stores are found not in glossy malls, but in humbler company. In Russellville, Ark., for example, Wal-Mart's neighbors bear names like Bargain Mart and Family Dollar; in Conway, Ark., Wal-Mart shares a parking lot with the No Item Over \$6 Store. Wal-Mart has prospered not because its customers are prosperous, but for other reasons.

Its discount prices on name brands are one; but rival retailers sell at comparable prices. Wal-Mart has surpassed most of them by mastering details that often confound its competitors. Suc-

cessful retailing, as one Wal-Mart executive has said, is "made up of thousands of little things," and Wal-Mart is especially strong at identifying those little things and doing them right.

For instance, long checkout lines are rare at Wal-Mart stores; most now scan bar codes. Wal-Mart's shelves stay full, even though the turnover of goods is rapid; Wal-Mart has heavily automated the flow of merchandise, from manufacturers to warehouses to stores, and can send goods quickly wherever they are needed.

Wal-Mart has combined its up-to-date technology with intensive attention to people—customers and employees alike. "The approach we've taken," says Jack Shewmaker, a Wal-Mart board member who was vice chairman and chief financial officer until he retired in February,

Sam Walton spends four days of each week on the road, visiting Wal-Mart stores. Here he speaks to employees—Wal-Mart calls them "associates"—in Conway, Ark.

"is that systems are not intended to replace people, or to take the place of their judgment; systems are intended to help them do their jobs better."

If, for example, Wal-Mart's computers know how fast the merchandise is moving—and which stores need more of a given item—the employees, not having to spend a lot of time keeping track of such things, can devote more time to customers. A "people greeter"—usually an older salesperson—waits near the front of each store, offering directions to anyone who looks the least hesitant or confused, and throughout the stores, there is a strong sense that help is close at hand.

Wal-Mart calls its employees "associates"; if the company did not originate the term, it has done a great deal to popularize it.

Wal-Mart's principal executives, including Sam Walton, occupy unpretentious paneled offices only a few steps off a hall on the headquarters building's ground floor, and in other ways, too, the distance between top and bottom at Wal-Mart seems narrower than at many other companies.



PHOTO: JIM KNOWLES—PICTURE GROUP

Walton and other Wal-Mart executives spend four days of each week in the field, visiting stores—competitors' as well as their own.

They compare notes on Fridays at Bentonville, and at 7:30 a.m. every Saturday (members of Wal-Mart's management staff are expected to work three Saturdays of every four), hundreds of Wal-Mart people gather in the company's auditorium to share problems and accomplishments. Has an assistant store manager in an Arkansas college town come up with some inventive ways to display merchandise and tap the student market? At the Saturday meeting, he will have a chance to tell the company's chairman, in person, what he has done—and to hear the chairman's praise.

Morale seems high throughout Wal-Mart (thanks in part to generous profit-sharing and stock-purchase plans). The headquarters building buzzes like a contented hive, and not just the stores but even the warehouses are almost supernaturally bright and clean.

Through its command of so many "little things," Wal-Mart has won the loyalty of thousands of employees and millions of customers—and it has stimulated the purchase of many billions of dollars' worth of merchandise.

As in the American economy as a whole, in recent years a high percentage of Wal-Mart's merchandise has come from foreign manufacturers. Imports have accounted for perhaps 40 percent of Wal-Mart's sales—4 to 5 percent in direct Wal-Mart imports and about 35 percent from American suppliers who have bought overseas.

Late in 1984, the torrent of imports began to weigh on Sam Walton. "I had just finished a trip to Central America," he recalls, "and on the trip, something got to me, about feeling that we needed to do all we could, as a corporation, to start buying merchandise in the United States, proving that we could be competitive."

Around that time, Gov. Bill Clinton of Arkansas called Wal-Mart's President David Glass and asked for help in saving Farris Fashions, a struggling shirt company in eastern Arkansas. "It was a sad situation," Walton says. "They'd made Van Heusen shirts for years and years, then Van Heusen had pulled the contract and gone overseas with it. Bill thought the guy might have some potential; he had 90 people working for him."

Walton spoke last December at the opening of Wal-Mart's first hypermarket—a five-acre store (three times as big as a typical Wal-Mart Discount City) that combines a

discount store with a supermarket and specialty shops. Wal-Mart expects to open at least 50 of the stores, called Hypermart USA, over the next few years.



PHOTO: ARKANSAS GAZETTE

Walton and Glass and other executives mulled over the possibilities. Then, Walton says, "we called Bill and said, 'We're going to get in touch with this guy, and we're going to see if we can do something that's never been done before.'"

When his secretary told him that Sam Walton was on the phone, Farris Fashions' President Farris L. Burroughs recalls, "I thought someone was playing a joke on me. But he kept talking, and I realized who it was, and then I panicked. It was like talking to President Reagan."

A few weeks and several trips to Bentonville later, Burroughs had a contract to make 240,000 printed flannel shirts—a product that Wal-Mart had been buying in the Far East.

This year, his fourth as a Wal-Mart supplier, Burroughs will produce 1.5 million garments—mostly men's and boys' shirts—for the giant retailer. His payroll has more than tripled, to around 325 workers in two eastern Arkansas towns, Hazen and Brinkley, and he has invested more than \$1 million in new equipment. Farris Fashions and another American manufacturer now make about 75 percent of the flannel shirts Wal-Mart sells.

Wal-Mart has given Burroughs a firm commitment for all of 1988, and he says Wal-Mart has helped him in other ways: "When we send an invoice in, they shoot it right on back to us. The turnaround time is very fast, about 10 days. Some companies you ship to, it may be 30 days or 60 days or 90 days before you can collect your money. You

can't compete with the Far East if you have to carry an invoice that long." Wal-Mart buys the flannel for Burroughs' shirts in Asia—the cloth itself is still available only overseas—and gives him the benefit of the lower prices it can command.

Burroughs, in turn, gives Wal-Mart the benefit of the cost savings that he enjoys thanks to the retailer's cooperation with him.

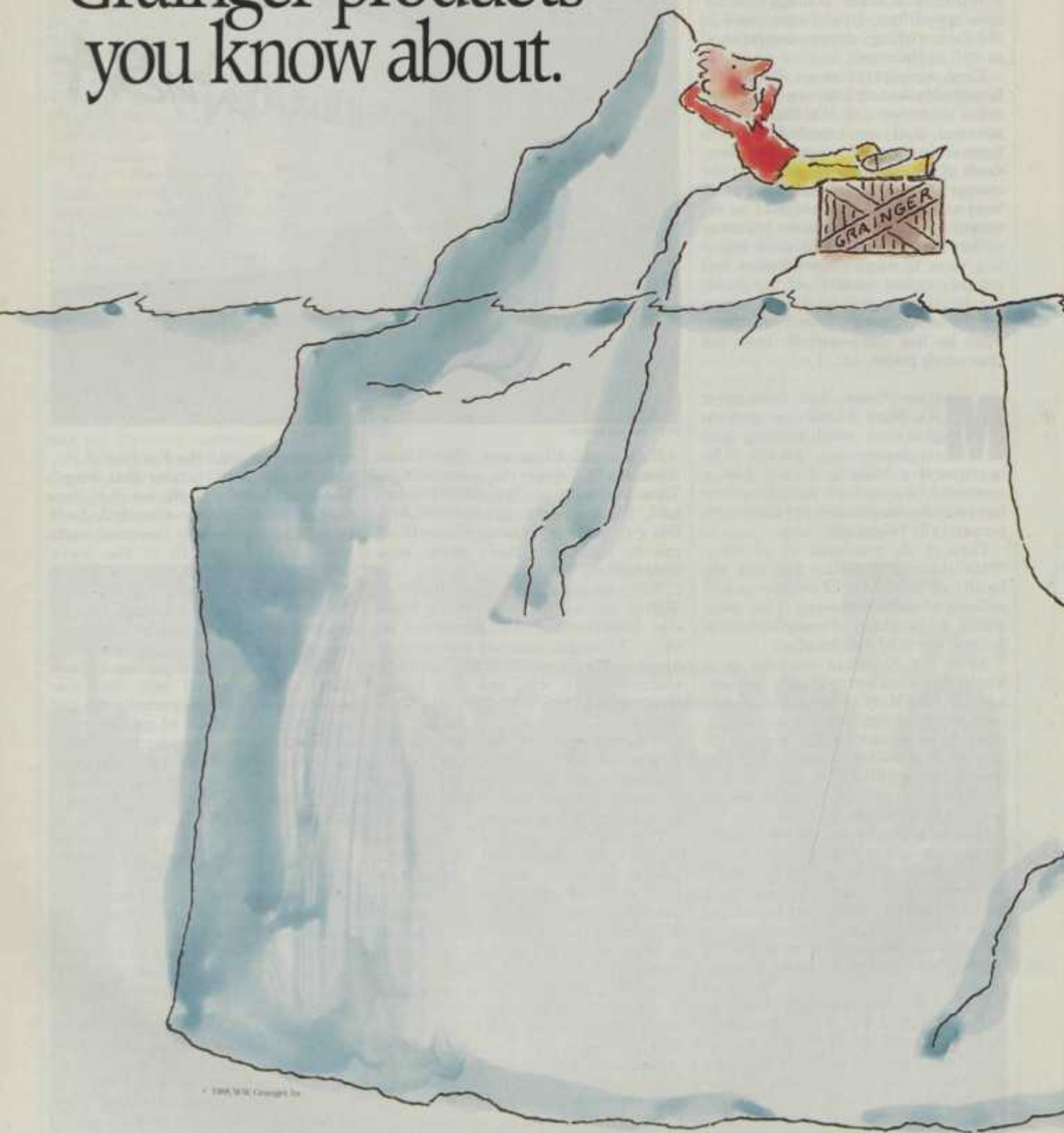
Many suppliers, he says, "try to push their inefficiencies off onto their customers; every year they want more and more money. Instead of getting more efficient each year, they try to get more money up front. We look at it the other way: We try to see if we can actually cut the price."

With Wal-Mart's commitment in hand, Burroughs has been able to go to his suppliers—the ones who provide him with buttons and labels and the like—and ask them, "What can you do for us on price?" I just talked to my lining man, and he said he'd run onto a bargain, and he would be able to drop the price this year over last year; and he dropped last year's price over the previous year."

In March, 1985, the example of Farris Fashions fresh in his mind, Sam Walton sent an open letter to U.S. manufacturers, inviting them to take part in a "Buy American" program, and offering to work with them to produce goods that were competitive, in price and quality, with imports.

"Our American suppliers," Walton wrote, "must commit to improving their facilities and machinery, remain finan-

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Walton's Mountain

cially conservative and work to fill our requirements, and most importantly, strive to improve employee productivity. Wal-Mart believes our American workers can make the difference, if management provides the leadership."

"That kicked us off," Walton says. "Boy, they started coming in, saying, 'I think we can do this, if you'll do that.' It was good for us, too. We learned that we can affect the cost of goods by going out and doing what we'd been doing overseas—laying down a commitment, working with them on specifications, on quality, on timing of shipments, paying for the goods closer to the time of arrival. A lot of retailers have made their payrolls by making the manufacturers carry their paper for them. We've been paying for everything overseas by letter of credit, even before it's shipped, yet we haven't done the same thing for our own manufacturers."

When General Wax, a candle manufacturer in North Hollywood, Calif., saw Walton's invitation, "we immediately rushed in with a presentation," Vice President Michael Tapp recalls. In the negotiations that followed, Tapp says, "everybody had to bring something to the party." Now, thanks to a purchase commitment from Wal-Mart, General Wax can keep its factory busy making decorative Christmas candles in January and February—normally the slowest time of the year—and Wal-Mart can buy such candles at a price comparable to what it used to pay overseas.

In other cases, Wal-Mart sought out American suppliers. When Wal-Mart's buyers came to Cannon Fieldcrest, the New York-based manufacturer of towels and linens, to see if it could replace a line of low-priced washcloths being made in China, "they were very open" about Wal-Mart's dealings with its foreign suppliers, recalls Gene McCarthy, Cannon Fieldcrest's executive vice president for sales. Cannon wound up producing washcloths that Wal-Mart says are 25 percent thicker than the imports they replaced.

"They really evaluate everything for you," McCarthy says.

"They will give you whatever you need in order to make the program feasible. If they're buying six months ahead [overseas], if they're committed that way, they'll do the same thing if you want it or need it."

By working with its suppliers, Wal-Mart says, it has converted into domestic products dozens of items—micro-

COVER STORY

Michael Tapp, right, vice president of General Wax in North Hollywood, Calif., and plant manager Scott Drake examine some of the Christmas candles that General Wax makes for

Wal-Mart through the Buy American program. General Wax makes the candles at its slowest time of the year; Wal-Mart buys them for a price competitive with imports.



PHOTO: T. MICHAEL KEZZA

wave ovens, toaster ovens, color television sets, beach towels, sweaters, videotapes—that were previously imported.

If there is anything odd about this intensive cooperation between Wal-Mart and its suppliers, it is that Wal-Mart is widely regarded as a hard sell. William O. Ballard, who owned a franchised Ben Franklin variety store at Brinkley almost 40 years ago, when Sam Walton owned one about 60 miles away at Newport, Ark., recalls that Walton was known even then as a shrewd bargainer. "He's more that way now, but he always was that way."

Cannon Fieldcrest's McCarthy speaks respectfully of Wal-Mart's bargaining prowess, but adds: "I'm not sure I would use the word tough, because it almost comes across as negative."

That word is, however, the one that Wal-Mart's Vice Chairman A. L. Johnson uses: "I think it's as true today as it was five years ago that we're pretty tough. We drive a hard bargain, although we try to drive a fair bargain." The Buy American program, he says, "certainly didn't soften our position, but it does require that we work more closely with our vendors, and as a result, I guess, we have a better understanding of some of their needs and problems, and they of ours."

Buy American is, Wal-Mart executives insist, in no way a sentimental exercise. The company does not believe in subsidizing inefficient American manufacturers by paying higher prices for goods that could be bought more

cheaply overseas. But an apparently lower price for an imported product can be misleading, Johnson says.

"There are hidden costs. There's the cost of owning that inventory once it leaves the port. There's the cost of buyers traveling overseas for extended periods of time," he says. "We finally developed a formula that said you need to go through all of these steps to make a comparison between an import item and one that's produced domestically. Once we got that figured out, it was a little easier to make those comparisons."

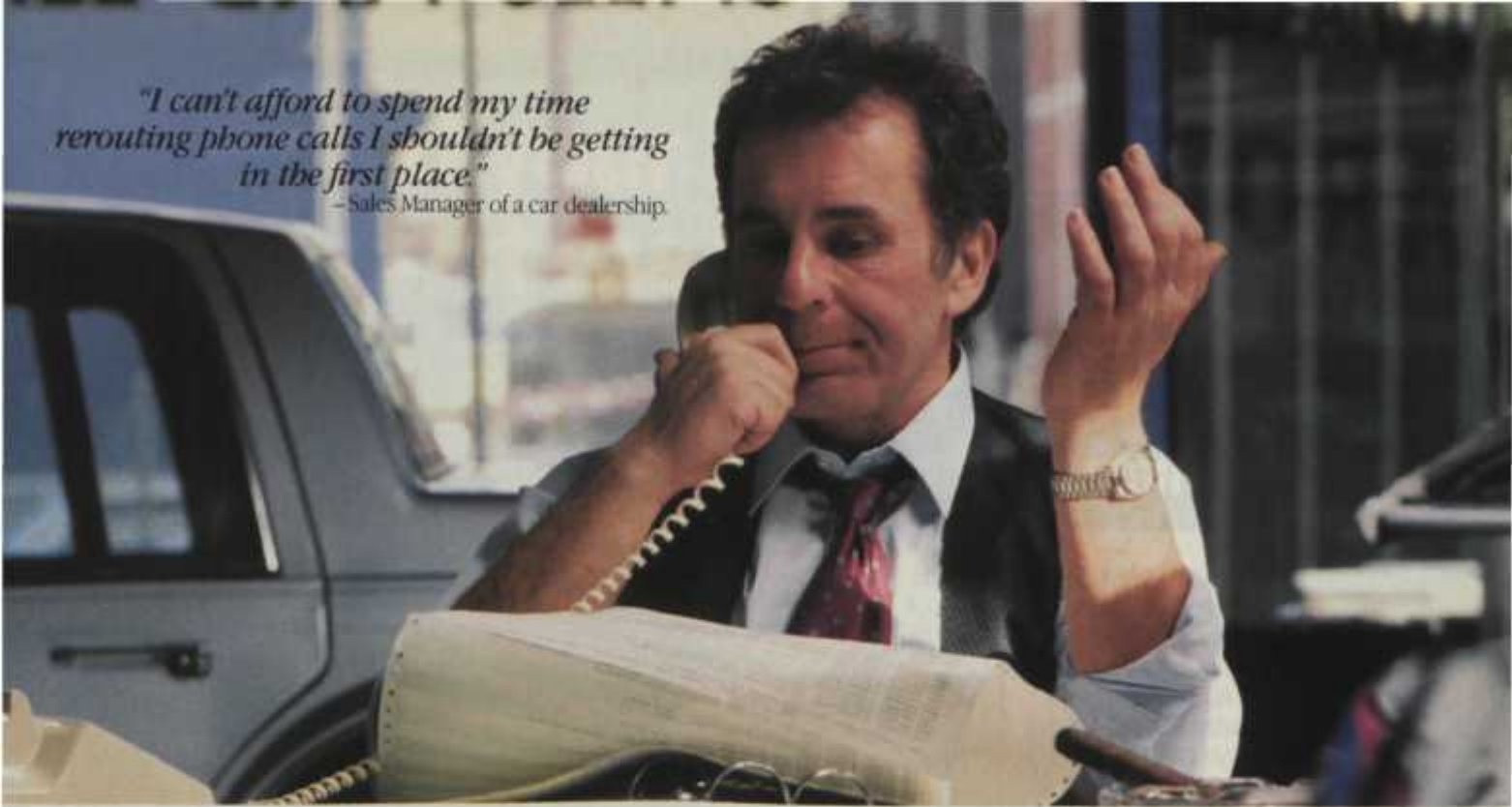
Now that realistic cost comparisons are possible, Johnson continues, Wal-Mart buyers will, as they plan an import-buying trip, "take that same plan, and they will shop the market here. A good number of the conversions have come through that process; it's pretty routine now."

Wal-Mart estimates that after three years, it has spent more than \$1.2 billion in Buy American purchases (in addition to its other purchases of American-made goods) that would otherwise have gone to foreign vendors. Paradoxically, though, Wal-Mart's direct imports have not shrunk as a percentage of its sales. That is because Wal-Mart now imports directly some products that it used to buy through American intermediaries.

Imports of both kinds may be down as a percentage of Wal-Mart's total sales, but it is hard to say, because so many American products contain imported components. Many of Wal-Mart's suppliers could have been using more imports in their products, even as

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COVER STORY

Walton's Mountain

other suppliers were switching production back to the United States. The American economy's appetite for imports of all kinds has remained surprisingly strong, despite the dollar's decline, and Buy American may have done no more than help keep a bad situation from getting worse.

Buy American has suffered a few failures; sometimes purchases have been shifted back overseas when it became clear that a U.S. manufacturer could not compete. Frazier Engineering, a Morristown, Ind., manufacturer of patio chairs that Wal-Mart bought under the program, went bankrupt last year, despite what Leon Broughton, the company's former controller, says were a Wal-Mart buyer's efforts "to make sure that Frazier Engineering was going to be around tomorrow."

Farris Burroughs says that Walton

the way we've tried to do with our people, and share the profits with them."

Wal-Mart, Walton says, is encouraging its vendors "to do a better job of managing, and a better job of relating to the workers. We invite them to come talk to us about how we measure productivity, the way we've set up goals and incentives. It works even better in manufacturing than it does in service industries like ours, because they can quantify, and measure productivity so much better. Some of them are doing these things because we've talked to them, and we've created an example for them."

The Buy American program is best understood not just as a plan to save jobs, much less as a publicity gimmick (it probably has been a lot more trouble to Wal-Mart than the modest amount of favorable publicity about it could have

"The best part" of Buy American, Sam Walton says, "as important as any other, is to try to get our manufacturers to create a partnership with their workers the way we've tried to do with our people, and share the profits with them." Wal-Mart, he says, is encouraging its vendors "to do a better job of managing, and a better job of relating to the workers. We invite them to come talk to us about how we measure productivity, the way we've set up goals and incentives."

"is the only guy I've ever worked for who looked me right in the eye and said, 'Son, if you can't make money off of this project, don't do it.' Most people could care less whether you made money."

Walton and his colleagues do care, in part out of simple patriotism, and in part out of concern for the American workers who buy Wal-Mart's merchandise as well as manufacture it. But there is considerably more to the program than can be measured by the dollars that stay in the United States because Wal-Mart buys here instead of overseas. Sam Walton sees Buy American as an opportunity to help Wal-Mart's suppliers make fundamental changes in the way they operate.

Says Walton: "The best part of the program, as important as any other, is to try to get our manufacturers to create a partnership with their workers

been worth), but above all as a missionary effort.

Although they are fiercely competitive, Walton and his colleagues know that their company owes its success less to its competitive drive than to how well it has cultivated every possible community of interest—with its employees, its customers and, now, its suppliers.

Through Buy American, Wal-Mart is telling American manufacturers that they can strengthen their place in the world economy by making themselves more like Wal-Mart—that is, by embracing a corporate philosophy that finds the greatest value not in profits alone, but in profits won through a harmonious striving together. ■



To order reprints of this article, see page 61.

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PCs On The High Seas

By Steven Golob

Half of all U.S. export shipments are valued at less than \$5,000, and about three fourths are under \$25,000. Such figures show there are markets abroad for small shippers. But figures on the total value of shipments show that smaller firms have not yet taken full advantage of the opportunities available to them.

One reason is that exports are shipped on a sea of documents, and the paperwork required for a small shipment is not much different from that required for a large one. Small to mid-sized companies have stayed away from exporting to avoid the labor-intensive paperwork that makes it harder and costlier to sell overseas than at home.

But now the playing field of international trade is being leveled by computers, which can fill out numerous forms and communicate by electronic-data interchange quickly, inexpensively and effectively.

"The payback for smaller companies using off-the-shelf software is so fast that most people don't calculate it any more," says Leslie Stroh, publisher of *The Exporter* magazine.

By computerizing export operations, management can seek new markets abroad without worrying about creating a tangle of paperwork.

With most software systems, one clerk using a computer can do the work of an export department of six to eight people handling 2,000 to 3,000 shipments a year, says Stroh.

Besides saving the time and expense of filling out forms and avoiding the errors that plague such repetitive work, software systems can save time by transmitting documents over phone lines.

While software can solve many documentation problems, outdated laws create others. For example, the United States' Bill of Lading Act of 1916 requires "written" bills of lading, and New York's Statute of Frauds provides that any contract for \$1 or more must be printed "on paper."

But electronic word processing and data interchange are here to stay; the old laws will be left behind—along with those who cling to a paperwork past as computers move exporting into the future.



PHOTO: WILLIAM CLARK—CLICK/CHICAGO

Even more U.S. cargo may head for foreign ports as smaller exporters discover how software packages can ease their paperwork burdens.

Materials For Export

Three magazines and one in the making are aimed at helping U.S. exporters.

The Exporter, a monthly, (\$95; 6 West 37th St., New York, N.Y. 10018) is the most newsy, with updates each issue on trade conditions, procedures, practices and other items for exporters.

The bimonthly *Export Today* (\$95; P.O. Box 28189, Washington, D.C.

20038) is less newsy and has longer articles on more topics.

The biweekly *Business America* (\$57; Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402), published by the Department of Commerce, has a forthcoming feature that centers on selling to Hong Kong.

Scheduled to begin publication in late spring or early summer is *Export Business* (\$24; 2744 Woodley Place, N.W., Washington, D.C. 20008). This monthly will be more of a how-to magazine, with a story in its first issue on how to get a \$100,000 export loan. **B**

Trading Software

Exporters file forms with the Bureau of the Census, importers with the Customs Service. Everyone can fill out these forms and file them electronically. Everyone also can create and transmit a shipping document or learn almost anything an international trader must know—by using the right computer software. Among the companies that sell trading software are:

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Bureau of Dangerous Goods, Ltd., Philadelphia; (215) 521-0900.

CIF, Inc., Houston; (713) 649-3318.

Export/Import Applications, Redwood City, Calif.; (415) 365-6484.

Futura Trading, Inc., Boston; (617) 439-5222.

International Data Access Corporation, Los Angeles; (213) 215-0331.

LCEXAM, Inc., Smithtown, N.Y.; (516) 361-8896.

Loring Associates, Rolling Meadows, Ill.; (312) 259-1762.

Pacific Commerce Company, Ltd., Elmirra, Ore.; (503) 935-3361.

Syntra, Ltd., New York; (212) 714-0440.

Trade Technologies Group, Inc., Carol Stream, Ill.; (800) 443-3730.

Transinfo, Ltd., Staten Island, N.Y.; (718) 816-8787.

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U.S.-Canadian Trade—Free At Last?

By Albert G. Holzinger

John Keisling, president and chief executive officer of Cumberland Hardwoods, is not your average small-business owner.

At a time when most entrepreneurs remain reluctant to export, Keisling is shipping the hardwood furniture components his firm makes in rural Tennessee to Germany, Great Britain, Italy, Singapore, Taiwan and several other nations.

But Keisling isn't exporting to Canada.

This isn't because he doesn't want to, or because he wouldn't find customers in Canada. Keisling isn't selling north of the border because the 15 percent tariff imposed on his products there makes them prohibitively expensive.

But Keisling's furniture parts and the products made by countless other U.S. businesses could begin crossing the border to Canada if the U.S. Congress and the Canadian Parliament endorse the Canada-U.S. Free Trade Agreement (CFTA), signed early this year by President Reagan and Prime Minister Brian Mulroney.

The United States and Canada already trade more goods and services than any other two nations. The CFTA would increase that trade \$25 billion over five years, beginning Jan. 1, 1989, according to the U.S. Chamber of Commerce, which recently endorsed the agreement.

A study by the Mulroney government concludes that the agreement would increase the gross national product of Canada 7 percent over 10 years. The study also forecasts a 1 percent increase in the United States' GNP, which is about 10 times larger than Canada's.

"We have not had a more significant bilateral trade negotiation in the past 200 years, and we will not in the next 200 years. It's a major net plus for both sides," U.S. Trade Representative Clayton Yeutter said in the opening House hearing on the agreement. In general, the CFTA would:

- Eliminate U.S. and Canadian tariffs by Jan. 1, 1999.
- Eliminate nontariff barriers such as the import licenses Canada requires for many U.S. agricultural products.
- Eliminate almost all restrictions on investments.



Erwin von Allmen's firm, W.C. Smith, Inc., of Philadelphia, has been profitably exporting candy-making equipment to Canada for nearly 60 years.

• Allow the "fullest possible" trade in crude oil, natural gas, electricity and other energy products.

• Allow unrestricted trade in about 150 service sectors, including insurance, telecommunications and tourism.

• Allow virtually unrestricted market access to financial-services institutions.

Under the agreement, claims of unfair trade practices and other disputes would be settled through binding arbitration by five-member bilateral panels.

According to Washington folklore, the explosiveness of a piece of legislation can be measured at its first congressional hearing by counting the number of Gucci loafers—the favored footwear of Washington lobbyists—worn by those in the room.

By that standard, tumultuous times lie ahead for the CFTA. Lobbyists packed the House Ways and Means Committee hearing room during Yeutter's testimony.

Some opposition to the agreement already has surfaced on the U.S. side.

About 20 senators who represent Western states have told the White

House they are concerned about provisions that, they argue, preserve Canadian advantages on nonferrous metals, coal, plywood, uranium and wheat. The White House is said to be trying to develop language in the implementation bill that would appease the Western bloc.

And while the U.S. business community generally supports the pact, organized labor opposes the agreement because it fears Americans in import-sensitive industries will lose jobs. Ironically, the same fear exists in Canada.

Opinion polls conducted on both sides of the border early this year find that the American public strongly favors the pact while Canadians are divided. Canadian opponents of the CFTA believe some of their industries could be overrun by American products.

Peter O. Murphy, chief U.S. negotiator on the CFTA, says the pact's fate lies in the hands of business people in the United States and Canada. Opponents are sure to be vocal, he said. Supporters must be just as vocal, or the agreement will be shouted down.

But even under existing trade laws and regulations, many small American businesses export their wares north of the border.

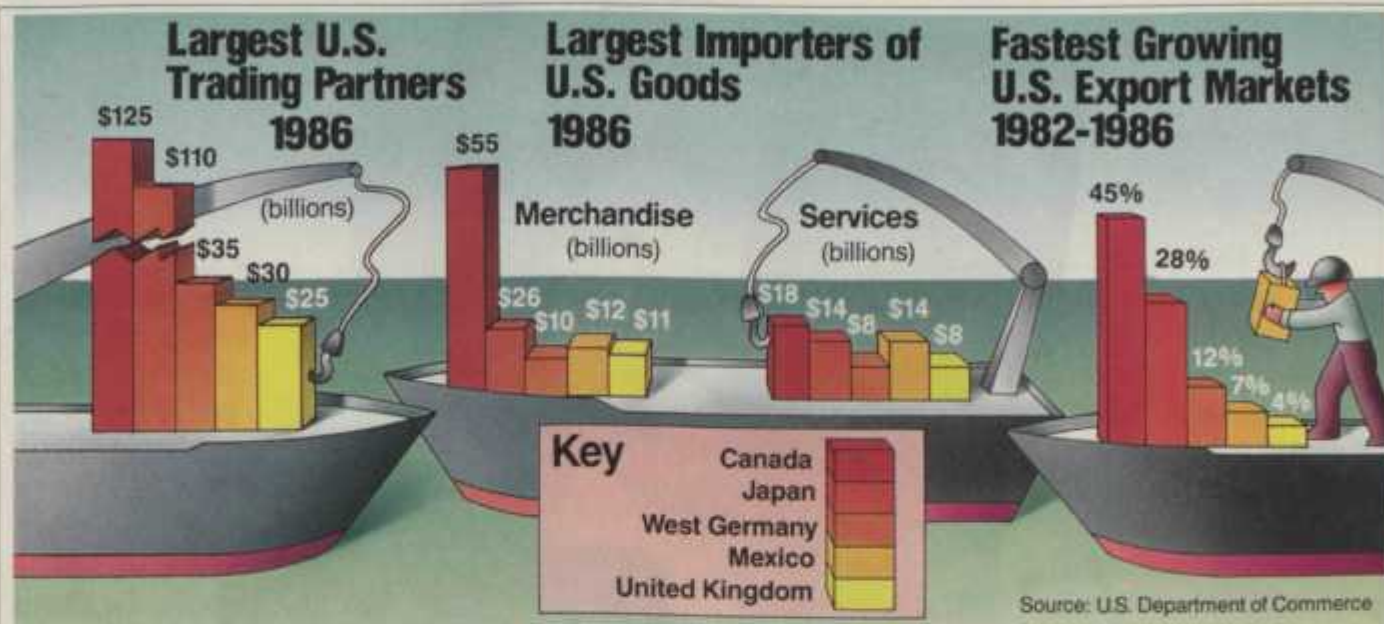
Almost since its founding 60 years ago, W.C. Smith, Inc., a manufacturer of candy-making equipment, has had a problem common among small firms with highly specialized products or services: a limited market.

The Philadelphia-based firm adopted what then was a daring solution for a fledgling business. It began marketing its wares in Canada as well as in the United States.

Today, W.C. Smith, thousands of other U.S. firms of all sizes and their Canadian counterparts ring up more than \$125 billion a year in export sales. (For comparison, trade between the United States and Japan is about \$88 billion a year, and U.S. trade with the 10 members of the European Community totals about \$108 billion annually.)

Sales to Canada have been increasing an average of 9 percent annually during the past five years. In the same period, U.S. sales to all other nations grew only about 0.4 percent a year.

Many more U.S. firms will be able to venture profitably into exporting by tapping the strong market in Canada, if legislatures of the two nations approve a pact designed to expand the world's largest bilateral trade relationship.



"Canada depends heavily on many imports from U.S. producers," says Frederick W. Stokeld, director of Canadian affairs of the U.S. Chamber of Commerce. He urges U.S. businesses: "Don't pass up opportunities to meet Canadian needs. The dollar is just as green [there] as it is in the United States and an awful lot easier to make."

Trade specialists say the factors that attract Americans to Canadian markets are:

- Distance.
- Demographics.
- Relative absence of Canadian-government disincentives.

About 90 percent of Canada's more than 25 million people live near the U.S. border.

"The way our firm looks at it, the United States is just 125 miles wider than most think it is, and it has about 20 million more customers" in that additional area, says Erwin von Allmen, president of W.C. Smith and professor of international management at La Salle University, in Philadelphia. Shipping goods to Canada, von Allmen contends, can actually be less difficult and less costly than sending them to distant areas of the United States.

"Canada usually is the best place to break into exporting because its market, though foreign, is not that strange.

Because of similarities in language, tastes, business practices and regulations, [Americans'] wares are likely to appeal to Canadians," says Ken Fernandez, a senior trade specialist at the U.S. Department of Commerce in Washington.

Donald Businger, commercial attaché to the U.S. Embassy in Ottawa, agrees: "If your product is doing well in the United States, there's at least a 90 percent chance it will do well in Canada."

Businger's optimistic assessment is based not only on consumer similarities but also on policies of the Canadian government.

He says that in Prime Minister Mulroney's government "there's a very positive climate... for U.S. investment and trade. And Canadian regulations and standards are quite similar to those of the United States."

Von Allmen contends Canadian regulatory officials actually "are more flexible and exercise more common sense" than their counterparts in the United States.

Though the consensus is that doing business is far easier in Canada than elsewhere abroad, experts are quick to remind American business people that exporting even to a comparatively open market is not for everyone. For example,

Canadian duties vary widely by industry and product, and these duties make some U.S. goods—Keisling's furniture parts, for example—prohibitively expensive.

If you think exporting to Canada would be profitable for you, here are some suggestions for getting started:

- Contact the Commerce Department's Office of Canada. This office is the source of a wealth of material on everything from Canadian-government procurement opportunities to sources of direct-mail marketing lists. Write the Office of Canada, H3303, U.S. Department of Commerce, Washington, D.C. 20230, or call (202) 377-3101.

- Participate in a trade mission. This is an excellent, low-cost way to evaluate opportunities and make contacts in Canada. The Small Business Administration is leading a mission to Toronto and Montreal soon, as part of its MATCHMAKER program. Call Sheryl J. Swed, director of the office of international trade at the SBA, at (202) 653-7794.

- Consider contracting with an individual or company in Canada to sell your wares, steer them through customs, distribute and service them. From his vantage point in Ottawa, Businger says, "It's possible, but not easy, to sit back in the United States and simply pump products into Canada." ■

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"Detroit is a lot of things to a lot of people. To me, it's got the best view of the Detroit River of any city in America."



Lily Tomlin

Film, television and stage actress

"Detroit is a lot of things to me.

"There used to be a tree in the backyard of the apartment house where I lived when I was a kid. It had a swing on one of its limbs which was placed so that when you swung on it, the whole tree would

flutter. I used to imagine that when I was swinging, somebody on the other side of town — over in the suburbs — would see this tree waving. And, by use of a swing or some other mechanical device tied to a similar tree, wave back to me.



"I believe I made several friends this way, though I can't prove it to be true, as I was too busy working my tree from below.

"In Detroit, I learned about the fine line between wisdom and weirdness. That anybody is capable of coming up with either at anytime, or even both at once.

"People are comfortable with this quandary; in fact, it flourishes here. I mean,

this is a place where an artist would create a statue in honor of Joe Louis which is nothing more than the Brown Bomber's right arm, ten times its size. Now, not everybody thinks it's art, but most everybody's willing to give the

guy the benefit of the doubt.

"Is it an act of wisdom or weirdness? I don't know — it's just Detroit. The city with the new overhead People Mover that moves without the aid of any people. The city with a Grand Prix race that attracts an international jet-set who dine on hot dogs and beer. The city with a statue of the Brown Bomber's right arm.

"I like the statue myself. In fact, I can even imagine an anatomical sculpture of my own, fifty times its actual size, exact to the scale of my feelings for Detroit.

"That's right, my heart.

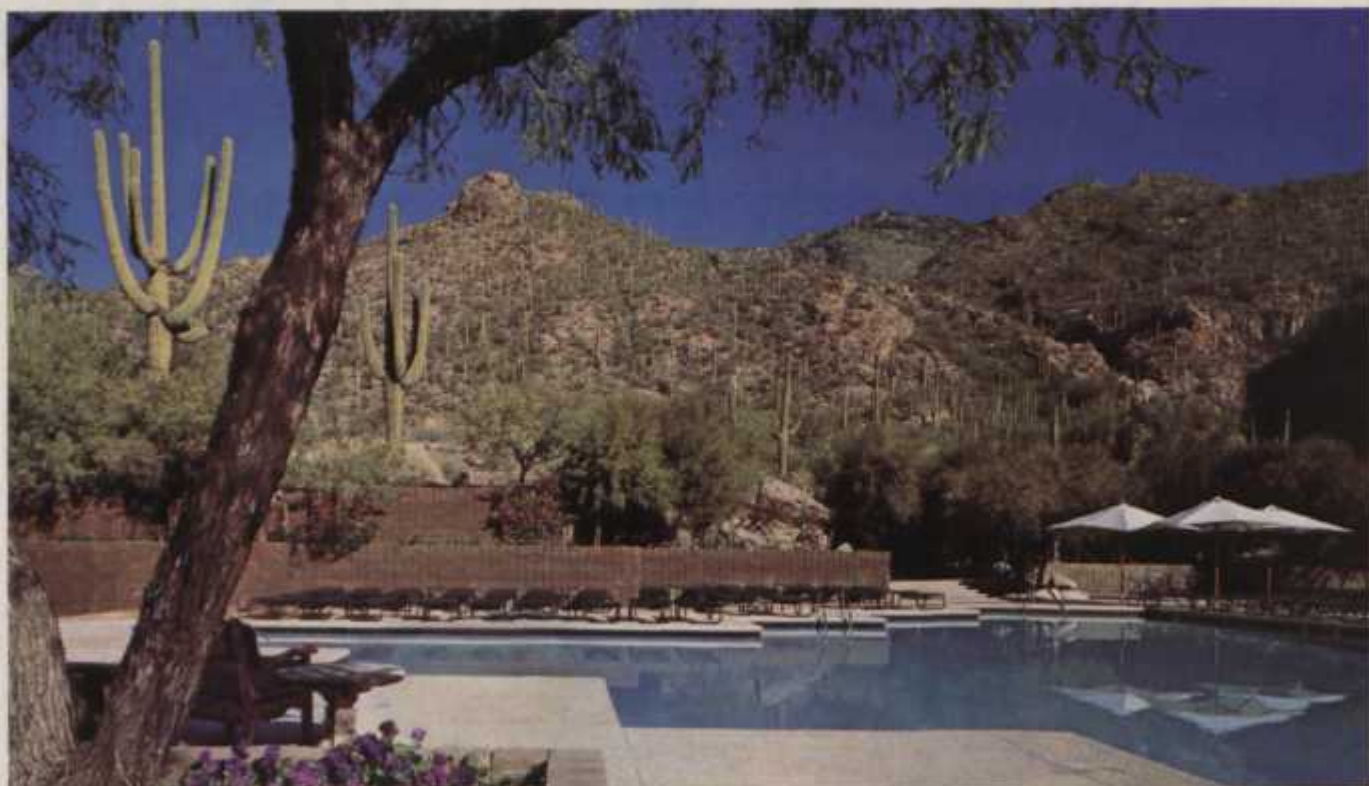
"I hope it will be up for you to see the next time you're in town. On the spot where a certain tree used to stand in my old neighborhood."

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 **Cards**

Tax Hikes May Reach Services

By Joan C. Szabo

Strapped for cash and looking for new revenue sources to help balance their budgets, many state governments are slashing expenditures, raising tax rates and trying to attach the burgeoning service sector to their sales-tax base.

For some states, Florida has become an example of the goal of a tax on services—if not a lesson in how to achieve it. Florida recently passed one of the most far-reaching service taxes ever levied by a state, and then repealed it after business complained that it was driving up costs. The Florida controversy renewed the longstanding debate over whether a tax on services is economically productive.

Service taxes, say business experts, are especially troublesome because they drive up the cost of doing business and reduce competition in the marketplace, especially for smaller companies.

"With a service tax, states create an incentive for business to perform certain services in-house, instead of contracting out for them," says William Myers, director of legislation and research for the American Legislative Exchange Council, a business-funded organization of conservative state legislators. But small firms are not able to hire full-time attorneys, accountants and other service providers, so they end up paying more for services.

A service levy also is criticized for its "pyramiding" effect, in which the tax may be paid more than once during the process that leads to the final product. This also drives up prices and reduces sales, critics contend.

But with the fiscal outlook for states so uncertain, the virtually untapped service levy is expected to remain an appealing option.

"While most states are better off now than during the recession of the early 1980s, their fiscal conditions are not as strong as in the late 1970s," says Corina L. Eckl, staff associate with the National Conference of State Legislatures. The group represents state legislatures at the federal level and conducts research on their behalf.

"The likelihood of state fiscal conditions worsening has increased, as many states are faced with sluggish economies and federal aid cuts," she says.

The degree of fiscal weakness varies

More states are expected to consider expanding their sales taxes to include services such as automobile repairs.



PHOTO: RAY CORDELL

by region. Southwestern and Rocky Mountain energy states, for example, have been hit hard by the decline in world oil prices. Levies from oil and gas production have declined to a trickle. These levies are known as "severance taxes," a reference to the severing of resources from the ground. Preliminary figures from the U.S. Commerce Department's Census Bureau indicate that fiscal 1987 state severance-tax collections were down 36 percent from the previous year.

Also feeling the budgetary pinch are states in the Plains and Midwest. Their troubles are tied to poor performance in the agricultural sector. New England and Middle Atlantic states report economic strength, however.

In the hunt for new revenue, 33 states raised tax levels in 1987, while only six lowered them, says Karen Benker, research director of the National Association of State Budget Officers (NASBO). Some states, including Idaho, Indiana and North Carolina, raised corporate income taxes, while others, such as Hawaii, lowered them.

Changes in the federal tax system

As states hunt for new revenue, a tax on services gains more appeal.

broadened the tax base, resulting in a revenue gain of as much as \$7 billion for the 35 states whose income-tax rates are tied to federally calculated adjusted gross income.

About 80 percent of this revenue gain, or "windfall," has been returned to taxpayers by a number of states. But that did not occur with the corporate income tax. "A considerably larger proportion of states retained the windfall from the corporate income tax than for the personal income tax," says Steven Gold, director of fiscal studies for the National Conference of State Legislatures.

To address budgetary shortfalls, many states also cut spending. Before fiscal 1987 ended, 24 states were under pressure to trim their budgets to avoid deficits. In Oklahoma, for example, transportation was trimmed by 39.5 percent, and funding for elementary and secondary education was reduced 10.2 percent.

Most states have balanced-budget requirements, though the strength of the requirements varies. In some states the governor must submit a balanced budget, in others the legislature must enact a balanced budget, and in others the carryover of a deficit into the next fiscal year is prohibited.

Despite such budget requirements, Alaska, Louisiana and Texas ended 1987 with budget deficits, and Alaska, Louisiana and West Virginia expect deficits in fiscal 1988, according to NASBO. In West Virginia, Gov. Arch Moore has proposed a major tax increase totaling up to \$100 million.

In addition, California, Colorado, Connecticut, Idaho, Missouri, New Mexico and North Dakota are concerned about maintaining balanced budgets this year.

As states hunt for new revenue, a tax on services gains more appeal. Services constitute one of the fastest-growing sectors of the economy and could raise substantial revenue for states. In Florida, for example, taxing services was expected to raise \$800 million in the fiscal year ending this June 30, and \$1.2 billion in the next year.

General sales and personal income taxes are the two major tax-revenue sources for the states. The sales tax,

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Tax Hikes May Reach Services

which is effective in 45 states, is the largest money raiser. It makes up 33 percent of state tax revenue. Personal income taxes account for 30 percent. The only states that do not have a broad-based personal income tax are Alaska, Connecticut, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming.

Florida's short-lived tax on services grew out of its need to raise more revenue to finance improvements in the state's services for its growing population. By letting all but a few sales-tax exemptions expire without renewal, Florida in effect extended its 5 percent sales tax to nearly all services, including advertising.

In an unprecedented move, the state also slapped a use tax on services, so that services brought into the state were taxed at the same rate as services produced in Florida.

State estimates in Florida showed that consumers would directly bear only 20 percent of the service tax, while the remaining 80 percent would be borne by businesses.

The expansive nature of the tax generated strong opposition from business. The U.S. Chamber of Commerce opposed the Florida service tax's extrajurisdictional nature—its reach beyond Florida's borders.

To protest the tax, many companies refused to advertise in the state and some trade groups canceled conventions. Advertisers, among the most vocal opponents, argued that the tax was an unfair surcharge on free speech. In addition, says John O'Toole, executive vice president of the American Association of Advertising Agencies, "a tax on advertising results in less advertising and therefore less sales volume. And that means not only a depressed economy but diminished sales-tax revenue."

Under substantial pressure from opponents of the tax, the Florida legislature repealed the levy effective last January 1. To offset the revenue loss, the state's sales tax was increased to 6 percent from 5 percent.

Even though Florida's service tax was the most far-reaching and the most hotly contested, a number of other states considered expanding their sales taxes to include services in 1987. Arkansas, Minnesota and Texas succeeded in broadening their tax bases somewhat to include some additional goods and services. But in Illinois, the legislature defeated a service-tax proposal.

The States And Business Taxes

Last year 18 states enacted tax changes affecting business. This chart lists some states that raised or lowered business taxes in 1987, describes each change and lists the estimated revenue gain or loss from the change this year.



| State | Tax Change | Effective Date | FY 1988 Revenue Increase (Decrease) in millions |
|----------------|--|----------------|---|
| California | Adjusted base and lowered tax rate from 9.6% to 9.3%. State revenues from business taxes will decline by \$195 million through 1990. | 1/87 | N/A |
| Hawaii | Lowered corporate income taxes. | 1/87 | (2.0) |
| Idaho | Increased corporate income tax from 7.7% to 8%. | 1/87 | 1.6 |
| Indiana | Halted phase-out of gross income tax. | 1/87 | 42.0 |
| | Increased supplemental net income tax. | 1/87 | 21.5 |
| | Increased corporate adjusted gross income tax. | 1/87 | 5.1 |
| Montana | Instituted a 4% surcharge. | 1/88 | N/A |
| North Carolina | Increased corporate rate from 6% to 7%. | 1/87 | 100.0 |
| Pennsylvania | Decreased capital stock franchise tax. | 1/87 | (79.9) |

N/A: Not available

Source: National Governors' Association / National Association of State Budget Officers

CHART: KAREN LOES

In addition, several states increased their sales-tax rates. In Texas the sales tax rose to 6 percent from 5.25 percent; it had been scheduled to drop to 4.125 percent. North Dakota raised its sales tax to 5.5 percent from 5.0 percent; Oklahoma went to 4 percent from 3.25 percent; and Utah raised its sales tax to 5.125 percent.

In two states, Idaho and Vermont, temporary sales-tax increases were made permanent.

Despite all the attention focused on the Florida levy, the idea of taxing services is not new. South Dakota, Hawaii and New Mexico have relatively broad taxes on services, and 21 other states tax services in limited ways.

The repeal of Florida's service tax will slow the drive to tax services. "Those states considering a service tax will move with more caution as a result of the Florida experience," says William C. Brown, president of the Council of State Chambers of Commerce.

But most state experts agree that the trend to extend the sales tax to services will continue, especially as states scramble to find new revenue.

Says NASBO's Benker: "More states will consider a piecemeal approach to the service tax, extending the sales tax to cover selected services, such as pet grooming and health clubs."

She believes states will be less likely to follow the broad approach attempted by Florida.

"An important lesson learned from the Florida experience is that the state tried some new things which raised money and worked for a six-month period," says Steven Gold.

He says he thinks this will encourage other states. "Perhaps if Florida had gone for two thirds instead of the whole loaf, the service tax might still be in place."

Even though budgetary problems will remain and in some cases may worsen in 1988, few states are expected to raise taxes during an election year, says Benker.

Even so, says Gold, "sooner or later states will be forced to tax services more heavily, if they are to avoid ever-higher sales tax rates, reduced reliance on the sales tax, or a permanently diminished rate of revenue growth." ■

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Pro Hits 400-Yard Tee Shots During Test Round

Want To Shoot An Eagle or Two?

By Mike Henson

MERIDEN, CT — A small golf company in Connecticut has created a new, super ball that flies like a U-2, putts with the steady roll of a cue ball and bites the green on approach shots like a dropped cat. But don't look for it on weekend TV. Long-hitting pros could make a joke out of some of golf's finest courses with it. One pro who tested the ball drove it 400 yards, reaching the green on all but the longest par-fours. Scientific tests by an independent lab using a hitting machine prove the ball out-distances all major brands dramatically.

The ball's extraordinary distance comes partly from a revolutionary new dimple design that keeps the ball aloft longer. But there's also a secret change in the core that makes it rise faster off the clubhead. Another change reduces air drag. The result is a ball that gains altitude quickly, then sails like a glider. None of the changes is noticeable in the ball itself.

Despite this extraordinary performance the company has a problem. A spokesman put it this way: "In golf you need endorsements and TV publicity. This is what gets you in the pro shops and stores where 95% of all golf products are sold. Unless the pros use your ball on TV, you're virtu-

ally locked out of these outlets. TV advertising is too expensive to buy on your own, at least for us.

"Now, you've seen how far this ball can fly. Can you imagine a pro using it on TV and eagle-ing par-fours? It would turn the course into a par-three, and real men don't play par-three's. This new fly-power forces us to sell it without relying on pros or pro-shops. One way is to sell it direct from our plant. That way we can keep the name printed on the ball a secret that only a buyer would know. There's more to golf than tournaments, you know."

The company guarantees a golfer a prompt refund if the new ball doesn't cut five to ten strokes off his or her average score. Simply return the balls — new or used — to the address below. "No one else would dare do that," boasted the company's director.

If you would like an eagle or two, here's your best chance yet. Write your name and address and "Code Name S" (the ball's R&D name) on a piece of paper and send it along with a check (or your credit card number and expiration date) to National Golf Center (Dept. H-730), 500 S. Broad St., Meriden, CT 06450. Or phone 203-238-2712, 8-8 Eastern time. No P.O. boxes, all shipments are UPS.

One dozen "S" balls cost \$21.95 (plus \$1.95 shipping), two to five dozen are only \$19.50 each, six dozen are only \$99.00. You save \$43.00 ordering six. Shipping is free on two or more dozen. Specify white or Hi-Vision yellow.

Mike Henson is a free-lance sports writer who covers golf extensively.

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Teams Score Victories At Work

By Gail Greco

If you pick the right players, you can mold a work-force team that will make your company more productive.

Dowdell Brown and his employees don't lead company cheers "or have any motivational posters in the office," he says. Yet he and his 19 employees have reason to cheer about the way they work together, says Brown, president of Mobil Land Development Company in Atlanta.

Mobil Land, with annual sales approaching \$20 million, had become a business that "wasn't fun any more and could have been producing a better product," Brown explains. Now the company's spirits are soaring, its profits are strong and communication among employees is better. What made the difference?

Teamwork. Like Brown, many employers are rediscovering and redefining the long-held belief that strong business teams make companies more productive and competitive.

"Businesses are looking for that extra something that makes them more desirable," says Candace Kaspers, president of Kaspers & Associates, in Atlanta, and a specialist in internal communications. That advantage, she says, comes from recognizing and orchestrating employees' individual talents.

Kaspers, whose consulting firm is known for its team-building approach, defines teamwork "as galvanized energy where employees come together to create a force that is larger than any one of them can singly produce." She says that "most people want to be part of a team. Financial rewards are not the only motivator."

Moreover, teamwork can help a company survive a crisis, Kaspers says, because employees "will go the extra mile, and you don't even have to ask for it."

The components of a successful team are the same regardless of a company's size, and the objective is to persuade everyone to work toward the same goals. It requires support from the top, and it is a task with key challenges, such as:

- Recognizing employees' distinct personalities.
- Identifying new team players during the hiring process.

Gail Greco is a free-lance writer in Bethesda, Md.



ILLUSTRATION: GREG FITZGERALD—EUCALYPTUS TREE STUDIO

- Maintaining the team as an ongoing part of the business.

An effective team-building strategy, according to Kaspers, is to encourage autonomy. Employees should be given tasks that they "own" and goals to reach by themselves. Kaspers warns, however, that where there is creativity there also can be failure.

Giving employees more responsibility was difficult for John Newman, comptroller of Liberty Furniture, in East Providence, R.I. "I'm not one who easily trusts others to get the job done," says Newman, who works with his father-in-law, the founder of the 50-year-old retail business. "When we got into teamwork, I found it particularly difficult to do my part. But I'm training myself to be more open."

Liberty Furniture, with annual gross sales of \$6 million, had growing pains. Though the work was increasing, the work force of about 40 was not growing. "We had the same number of employees who were still doing the same jobs. A new direction and redefined roles were needed," says Newman.

The company turned for help to Caliper Management, Inc., a management and psychological-testing firm in Princeton, N.J. Liberty Furniture had been using Caliper's interviewing formula and evaluation service in considering applicants for sales jobs. With the

company growing, Liberty asked Caliper to do team analysis.

"They hit me hard," Newman recalls. "They told me my problem was not having confidence in my staff." Now when he sees a task to be done, he asks himself if he can delegate the work to someone. "I make lists of what needs to be done and who can do it."

Newman has also found that if an employee isn't carrying out an assignment as fast as he would like, "I explain why I had to step in. I realize now that they aren't seeing the bigger picture, so they don't always understand our business priorities."

Jeanne Greenberg, chairman and CEO of Caliper, says: "Teamwork revolves around open communication between employees and management and the free exchange of ideas."

"Too many managers are afraid to listen to their employees. They think their subordinates will ask for the impossible. When you listen to them, you find their desires are so minor, and addressing them is part of a team effort."

A team functions better, Kaspers says, when managers and employees "accept certain behavioral styles even if they grate on us. We can't change people. It's too difficult and too time-consuming even to try, and the rewards are slim."

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Teams Score Victories At Work

and "those who are not team players will have to go," Greenberg says. Those who do the company's hiring must make sure they select only team players when they interview job candidates, she says.

She admits that there is no formula for identifying the team player. For managers with no more help than an applicant's resume, references and interview, choosing new members for the team becomes difficult.

Kaspers suggests that candidates be asked if they prefer to work alone or with others.

But proceed cautiously when looking for team players, she warns. "You don't want to end up with only 'yes men.'"

Healthy confrontations within the team are to be expected, Kaspers says. "If you have four managers and they all agree, then you have four too many [yes men] and no team."

Kaspers helps employers coach their teams by teaching them to recognize types of players. She assigns a player type to each letter of the word team:

Tacklers: those who undertake problems head-on, who move quickly and are oriented to the bottom line. They like control, yet under stress they may have angry outbursts, be blunt and sarcastic and alienate others. The tackler presents a tough exterior but can be approached through direct communication.

Enhancers: affable, democratic, optimistic and verbally poised. Acceptance is key, so make sure that enhancers feel they are part of the group; they take criticism personally.

Allies: accommodate others, tolerate detail work and like clear lines of authority. The ally hates confrontation, internalizes negative feelings and will quit before he tells you what's on his mind.

Monitors: evaluate and set high standards for themselves. Taking no chances, monitors require all the information and resources before taking on the job.

"If everyone is jockeying for control," Kaspers says, "perhaps they are all tacklers. If chores aren't accomplished, they may all be monitors. Appreciate the differences in style of the folks who make up your sphere of influence; utilize their strengths; seek and hire others who will fill in the missing components, for it takes a composite of diverse styles to make a team that succeeds."

Building employee teamwork is done with a different blueprint by Corporate Adventure, a Reston, Va., consulting firm that conducts outdoor programs for companies, using nature as a backdrop for fostering communication and team cooperation.

Says Meredith Kimbell, founder and president: "The outdoor experience reinforces a set of values and practices that encourages people to trust each other, to really listen to each other, be more receptive to dealing with change and solving problems collaboratively while having fun."

In addition to showing participants that their tenacity and resilience in accomplishing outdoor tasks can be effective back in the office, Corporate Adventure, like similar programs, also has team players touch one another, which they might not do on the job.

"There should be more contact in the office," says Kimbell, who advocates "quality eye contact" and workers speaking to one another more often.

Once a commitment to teamwork has been established, it must be maintained in order to keep a business at its peak. That was the conclusion at Ulrich, Voorhees and Warner, a Somerset, N.J., insurance brokerage firm with \$50 million in annual sales. "We just weren't satisfied," CEO Stephen Warner says. "We felt we could do even more."

After working with management consultants, Warner and his partner, John Voorhees III, began to implement a team effort among their 46 employees.

Once a month the company holds a party to celebrate staff birthdays, and it recently started recognizing employee anniversaries. When new business is obtained, someone rings a cowbell, and cheers are often heard in the hallways.

Warner's approach differs from Dowdell Brown's and John Newman's. But for all three, the basis of the teamwork is the same. "Teamwork is peeling back the layers of artificial insulation," Brown says. "When everyone is candid with the other and bares his soul, you have a real team." ■

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Building A Business: A Matter Of Course

By Marc Leepson

When Jack Thorne started teaching entrepreneurship at Pittsburgh's Carnegie Mellon University 15 years ago, he recalls, such courses were offered at only "four or five other schools in the country."

Today, hundreds of college-level entrepreneurship courses are taught. "It's a growing field" in higher education, Thorne says, partly because individuals, foundations and businesses have been putting up the money—generally at least \$1 million—to endow chairs of entrepreneurship.

Thorne, for example, holds the David T. and Lindsay J. Morgenthaler Chair of Entrepreneurship at Carnegie Mellon. David Morgenthaler is a venture capitalist. His wife, Lindsay, is a trustee of Carnegie Mellon University.

"Typically, these kinds of chairs have been funded by people who have either made money or are close to the entrepreneurial, venture-capital area because they're interested in providing an opportunity for more teaching and better funding and more credibility for research in the area," Thorne says.

"They feel that the art is teachable, and they want to expose students to the concept of starting businesses or participating with others at the high-risk end of business. I like to think of it as teaching students to find and exploit opportunities."

At the University of Pennsylvania's Wharton School of Finance and Commerce, in Philadelphia, Ian MacMillan directs the Snider Entrepreneurial Center, named for Ed Snider, owner of the National Hockey League's Philadelphia Flyers. MacMillan's \$6-million-a-year operation also receives funds from other individuals and from various federal, state and local government programs.

Fannie May, the candy company, is one of a few American businesses directly underwriting entrepreneurial programs in colleges. Jean Thorne, who heads the family-owned firm, started the Denton Thorne Chair of Entrepreneurship at the University of Illinois' Chicago campus in 1982 in memory of her late husband, the company's former chief executive officer. Since then, Fan-

Sharon Burch's computer-software business, DataLex, in Chicago, was up and running when she wrote a business plan—shown at her elbow—

in an entrepreneurship class, and it taught her "a lot of things I could have done differently."



PHOTO: RICHARD DEWE

nie May has funded entrepreneurship programs at De Paul University, in Chicago; Marquette University, in Milwaukee; and Beloit College, in Beloit, Wis.

Among other businesses funding entrepreneurial chairs is Burger King Corporation, which in 1986 established the James W. McLamore Chair in American Enterprise at the School of Business Administration, University of Miami, in Florida. McLamore, the co-founder and former president and chairman of the board of Burger King, chairs Miami's Board of Trustees.

Virtually all collegiate entrepreneurship programs—whether they receive public or private funds—have programs aimed at helping the local small-business community. Some programs are highly structured; others are less formal.

While most entrepreneurship programs concentrate on helping those

about to start businesses, many help those already under way. The Wharton School, for example, is one of 13 small-business-development centers in Pennsylvania working with budding entrepreneurs and with small-business owners. "We help up to 7,000 small businesses a year, ranging in assistance from a couple of hours spent explaining to somebody how to collect receivables or manage inventory better, to helping individuals with ideas develop business plans and raise the funding," MacMillan says.

At the University of Illinois at Chicago, most who take entrepreneurship courses are full-time undergraduate or graduate students. "However, it's not uncommon for people who are running businesses to take the course," says Gerald E. Hills, a professor of marketing who holds the Denton Thorne Chair of Entrepreneurship.

Marc Leepson is a Virginia free-lance writer.

Entrepreneurship programs at scores of colleges reach beyond the classroom to help businesses make the grade.

Sharon Burch was running her own fledgling business while she was studying for a master's degree in business administration, and she wrote a business plan as part of her course work. "I wish I'd taken the class before I started my business," says Burch, who owns DataLex, a computer-software firm. "I see a lot of things I could have done differently. But it has helped me since I've been using the business plan as a guide for my business."

Full-time students who don't run their own businesses can work directly with businesses in two different programs at Illinois' Chicago campus. In one, students must write a business plan. Hills says he hears from many people who want to start businesses, "and quite commonly I walk into class the first day and list as many as 10 potential businesses that students can work with if they so choose, rather than taking their own ideas and writing plans."

The second program is a course designed to help small businesses. "The students [in that course] spend the entire quarter, under faculty supervision, pursuing some program" with a small business, Hills says.

The students primarily help prospective entrepreneurs develop start-up plans, feasibility studies and marketing plans. "We find that [the program] almost always turns out to be an excellent learning experience for the students, and at the same time they do a lot of the groundwork and legwork and thinking that contribute to people who are starting businesses," Hills says.

He says that "we have more [business] people calling in than we can serve, so we try to be selective about whom we work with." Hills looks for people who have ideas that seem viable and who cannot afford to hire large accounting firms.

"If they seem to be in a position to pay a Big Eight company, we encourage them to do so," says Hills, who adds: "The world is full of dreamers. Far more people dream of starting a business than ever do it. We try not to work with dreamers."

Another entrepreneurship program focusing on business start-ups is run by Karl Vesper, a professor of marketing

Entrepreneurship professor Gerald E. Hills with graduate student Wendy Kabaker (right), who helps Carole P. Kingdon (center) with her Park

Ridge, Ill., company, What's For Dinner?, where the hurried and hungry can buy "real food" dinners to take home.



PHOTO: RICHARD DEKE

and organization at the University of Washington's School of Business, in Seattle. The small-business-management course is for full-time undergraduates. "However, it does consulting projects for small businesses utilizing the students' energy," he says.

Businesses that receive student help commonly are retail establishments looking for assistance with market-research studies, accounting-system improvements, growth strategies or reviews of personnel practices.

Vesper's department also runs a yearly Entrepreneurship Symposium, a one-day program in which the university brings in experienced entrepreneurs to share their thoughts on starting businesses. About a third of those who attend the symposium, he says, are small-business owners who "may want to hustle something to the people there, or they want to start other businesses, or they want to expand the ones they have."

At Carnegie Mellon University's graduate business school, Jack Thorne's course in entrepreneurship is aimed at second-year, full-time stu-

dents and is not open to small-business owners. But in another CMU graduate business course, in small-business management, students work directly with small businesses in the Pittsburgh area. Generally two students will be placed on a business project, which might be focused on planning, production or marketing, Thorne says. "Our main criterion is that [the project] is something serious and legitimate."

Thorne also chairs the Enterprise Corporation of Pittsburgh, a nonprofit group affiliated with both Carnegie Mellon and the University of Pittsburgh. It concentrates on helping entrepreneurs start small businesses.

"The Enterprise Corporation is definitely an outreach," Thorne says, "and we work with lots of people who are in the process of starting businesses." The corporation's staff members offer a range of services, from writing business plans to raising start-up funds. Since it began four years ago, the corporation has worked with some 500 small businesses. ■

Last-Minute Tax Strategies

By Paul N. Strassels

April 15 is fast approaching. Typically, half of the nation's taxpayers wait until the last two weeks of the filing season to complete their tax forms. This year is no exception. Despite the enormous number of new tax rules foisted on unsuspecting taxpayers, you are still required to file your personal return and pay your taxes by April 15. So are unincorporated business owners. For all the procrastinators, here are 10 tips to make last-minute filing easier, safer and less fearful.

- Mail your completed return yourself. Don't trust anyone to drop that envelope into the mail. There are too many cases where taxpayers have had to pay late-filing and late-payment penalties because they relied on friends, neighbors, secretaries or co-workers to mail their returns, and those people simply forgot. It is your responsibility to get your return in to the IRS; you cannot delegate it to others.

- File your return by midnight, April 15, even if you owe additional taxes and you do not have the cash on hand. There are two penalties involved here. The IRS imposes a 5 percent per month late-filing penalty for each month you are late with your return, up to 25 percent of the tax still to be paid. If you are more than two months late, the minimum penalty is \$100 or 100 percent of the tax still owed, whichever is smaller.

The IRS also imposes a late-payment penalty that is much less onerous. It amounts to one half of 1 percent for each month, again to a maximum of 25 percent.

- Make sure your check is good, and don't rely on any float time. The IRS deposits tax payments within a day or two of receiving them.

- Use sufficient postage. Tax returns often weigh more than regular letters, and the IRS does not accept "postage due" mail. Your return will be sent back, and you could face late-filing and late-payment penalties.

- Do not use private mail services. To meet the filing deadline, you need a date no later than April 15 marked legi-



PHOTO: CHRISTOPHER KEEN

bly on the envelope, and only the U.S. Postal Service can do that. Don't use Federal Express, UPS or other private couriers to deliver your tax return.

- Avoid your office postage meter. The date on the meter is not proof of when you mailed your return. Use stamps instead, and try to get the postal clerk to legibly hand-cancel your envelope.

- Don't bother with registered or certified mail. All you receive is proof that the IRS received an envelope from you. There is no proof of what that envelope contained.

- Tend to last-minute housekeeping chores. Check your figures a final time. Attach your W-2 wage report. Sign the return. Try to mail it a couple of days before the April 15 deadline to avoid long lines at the post office.

- If you are not going to meet the deadline, get IRS Form 4868, Application for Automatic Four-Month Extension of Time to File U.S. Individual Income Tax Return. Fill it out—it's only seven lines long—and send it to the IRS by April 15, along with a check for any additional tax you estimate you owe for 1987. Keep a copy for your permanent files and another to attach to your Form 1040 when you file by mid-August. If you need additional time beyond August, you can file a formal request with the IRS, but this time you

For all the procrastinators, here are 10 tips to make last-minute filing easier and safer.

need a good reason, and the IRS has to say yes.

- Flee the country. If you are out of the country on April 15, you get two additional months to file your return and pay your taxes. You will have to pay interest on what you owe. Just note at the top of your 1040 that you were abroad on income-tax day. However, don't go to Puerto Rico, the U.S. Virgin Islands or Guam, since they are considered part of the United States.

The case against refunds

Last year, the IRS intercepted \$326 million in income-tax refunds and applied the money against debts owed by the respective taxpayers to the federal government. Millions of refund dollars were used to cover delinquent payments for child support and student loans. Certainly, deadbeats should not receive tax refunds while owing vast sums of money on valid debts. However, there can be a legitimate dispute concerning a purported debt. For that reason alone, carefully plan your withholding and estimated taxes so you and the IRS break even at year-end. In fact, the IRS provides a \$500 cushion. You can owe that amount without incurring a penalty.

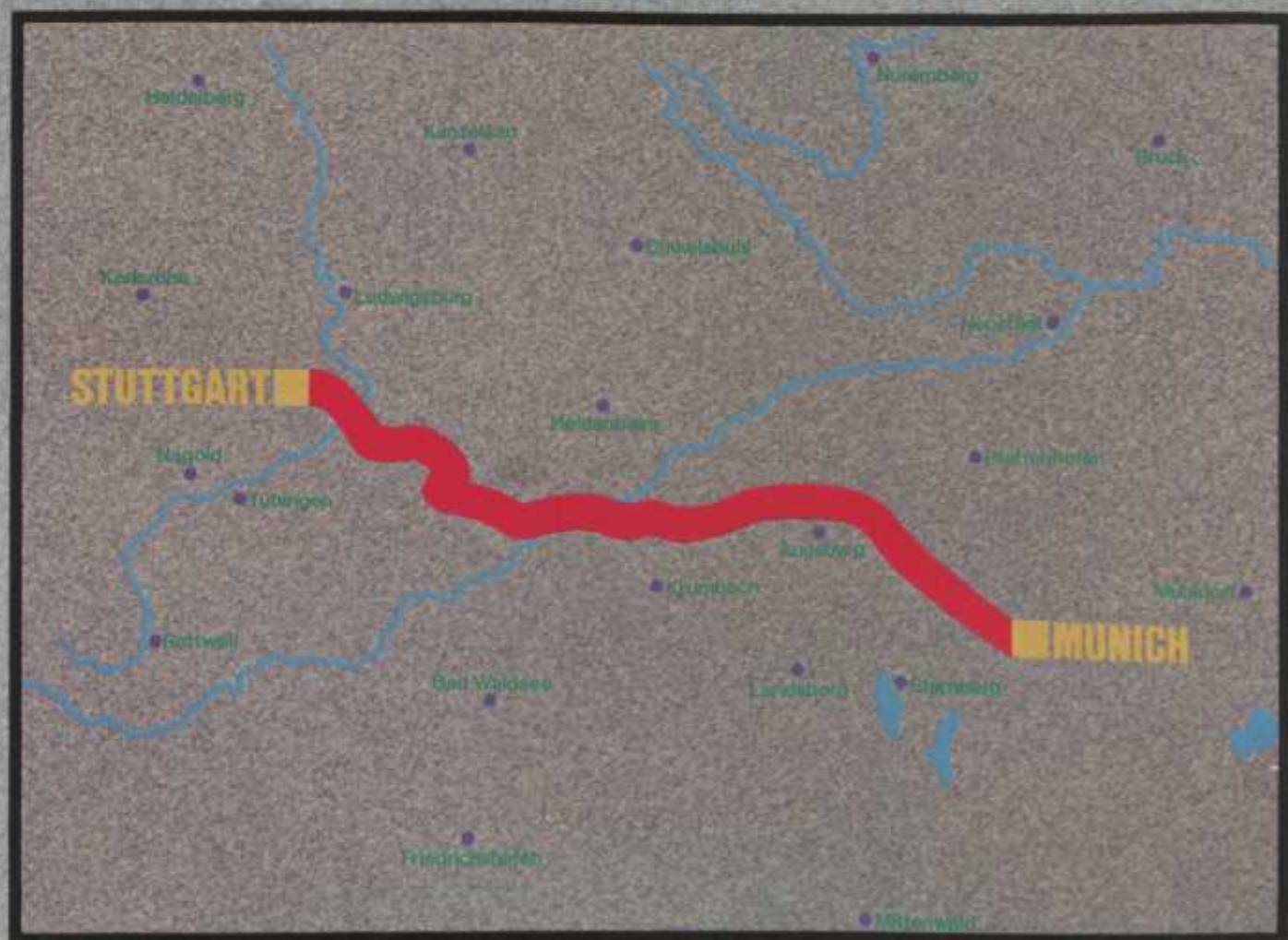
How much can a firm pay its owners?

Corporate returns have long been scrutinized for wages, bonuses, pensions and profit-sharing payments made to owners. IRS auditors frequently and arbitrarily determine that corporations overpay their owners, calling the amounts that exceed reasonable compensation levels nothing more than disguised dividends. That's important since wage payments are deductible, while dividends are not.

To protect your firm in case of an IRS challenge to your company's executive compensation, document precisely how that level was determined. Consider what others pay their top execs, their duties and the annual inflation rate. Executive compensation studies help. So do industry comparisons. They were sufficient to convince a tax-court judge in a recent case involving a printing company. The \$200,000 a year each owner earned was considered reasonable when compared with what competitors paid to their chief executives. ■

Paul N. Strassels, president of Money Matters, Inc., Burke, Va., is a tax-law specialist and financial adviser.

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Perhaps the most striking evidence of Scorpio's respect for passengers is in the rear compartment.

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Meanwhile, Scorpio's fully independent suspension and anti-lock braking system (ABS) help manage the road through the hard corners and the hardest of stops.

But even with all this, some owners have admitted there is one activity they occasionally prefer to sitting behind the wheel of a Scorpio: sitting behind the *driver* of a Scorpio.

*Selected from cars sold in the U.S.



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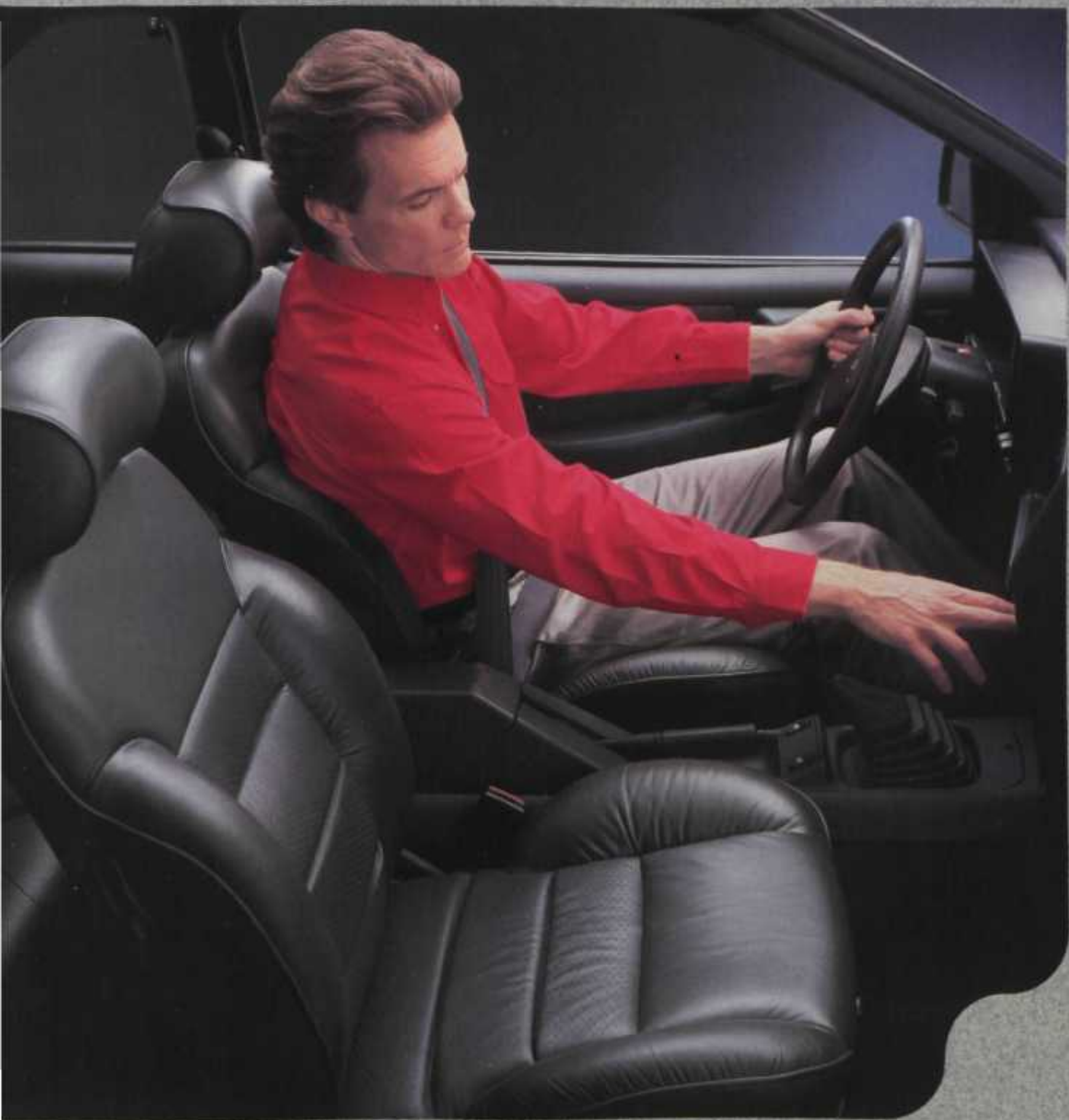
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Let Your PC Comb The Archives

Online databases give small companies quick, easy access to mountains of information.

By Jon Pepper



PHOTO: MEAD DATA CENTRAL

Andrea Axelrod had a problem. An account executive with the small New York public-relations firm of Gavin Anderson & Company, Axelrod needed to prepare a client for meetings around the country to raise money for a project. She also needed to keep research expenses under control.

Her solution: NEXIS, an electronic database service from Mead Data Central. She used her personal computer to retrieve articles from more than 160 sources about the people the client was scheduled to meet. "We found out what boards they were on, what connections they had, what speeches they had given—all the information my client needed to be prepared for the meetings," says Axelrod.

Though it sounds like several weeks' worth of tedious research, she completed all of the work in about one half hour of computer time, at a cost of about \$45. Indeed, Axelrod shudders at the thought of going through scores of newspapers and magazines to find all the articles that NEXIS located. "It would have taken so much time and required so many man-hours."

Small businesses are computerizing

LEXIS, the world's largest legal database, gives attorneys quick access to citations and case law.

almost as fast as large corporations, and they are finding that by acquiring a modem, telecommunications software and a subscription to an online database, they can reduce the time and cost of various information-gathering operations.

The range of services available online is staggering; they number in the thousands, and they are growing. Users can obtain timely stock information, scrutinize filings made with the Securities and Exchange Commission, examine airline flight schedules and fares, search for patents or find the latest weather report for Tokyo.

Many databases are relevant only to specific industries or to vertical markets: advertising, aerospace, agriculture, broadcasting, chemicals, computers and electronics, government, law, metals, petroleum products, plastics, transportation, weather. There are also broader capabilities, including electronic mail delivery, travel and shopping services, and newsletters.

Though telecommunications and online access may seem daunting to the uninitiated, they are not much more dif-

ficult to learn than office computers and word processors.

Any small business now using a personal computer—whether it is an IBM PC or compatible, an Apple, or even a lap-top—need only add a modem (a \$150 device that sends and receives the data over ordinary phone lines) and a software package to instruct the modem to perform communications tasks such as dialing a phone number and transferring data.

Training is not a major problem. Most communications software packages include automatic log-on procedures for the more popular services such as CompuServe, The Source and MCI Mail.

Once online with a particular service, however, you have to know how to use its menus and commands to find information. Learn all you can from the manual and the tutorial program first; if you try to learn online, you can ring up a large bill for using the service.

To use most services, you have to pay a one-time registration fee. Vendors charge monthly for the time you spend online, and for any material sent from their computer to yours.

Choosing a service depends on your business. There are general-purpose services such as The Source, CompuServe and GENIE. They charge about \$6 to \$18 per hour depending on time of

Jon Pepper, a regular contributor to PC Magazine and PC Week, is a freelance writer in Sunderland, Mass.

MANAGING YOUR BUSINESS

Let Your PC Comb The Archives

The latest legal decisions covering issues ranging from trademarks to bankruptcy are entered into the LEXIS service by Mead Data Central

employees in the Dayton, Ohio, office. The service maintains and continually updates a database of more than 3 million documents.



day, and they can be used at home or in the office. Any of them can give the user timely business and financial news, online encyclopedias, or airline schedules and travel reservations.

More specialized services include those such as Dow Jones News Retrieval. DJNR, owned by the company that publishes the *Wall Street Journal*, focuses on finance. It offers stock quotes, 10K extracts and other company profiles. It also has the full text of the *Journal* online.

Axelrod says using an online service for new business pitches "allows us to be knowledgeable about a potential cli-

ent's problems, colleagues and competition, and makes you a quick study." She adds that although her firm subscribes to many magazines, it has not stored a lot of back copies or articles. Doing an online search eliminates the need to spend "hundreds and hundreds of dollars on research," she says.

For a business that is involved in specialized industries, NewsNet, in Bryn Mawr, Pa., offers the full texts of hundreds of specialized newsletters and nine business wire services. Bob Hunzinger, marketing director for NewsNet, says: "We don't waste time marketing to the end user, but for those

involved in specialized industries— aerospace, defense and so on—we provide information that has time value that can make the difference between getting a contract or not getting one."

The costs of NewsNet services vary, but average charges to users run over \$20 per hour. However, Hunzinger says, if you need the information, the "sooner you know, the better off you are."

Dialog, from Dialog Information Services, Inc., in Palo Alto, Calif., has one of the largest collections of online information and is a favorite of professional researchers and librarians.

Shareware: Almost-Free Software

Online databases provide a lot more than information. They also can be sources of "shareware." These are programs that computer buffs have written and that you may copy and distribute freely to your friends. If you decide to use a program, its author typically asks only that you pay a registration fee, ranging from \$5 to \$89; in return, you receive a manual, update notices and telephone support.

Much shareware, which spans the range of PC applications, is good and far less expensive than commercial products. For example, the popular shareware program PC-Write, for IBM

and IBM-compatible PCs, has a \$75 registration fee and comes with all the latest word-processing features.

The best place to pick up shareware is an electronic bulletin board, accessible with a personal computer. Some bulletin boards charge a registration fee, but usually they allow you to "download" the software free. You can obtain the numbers of local and national bulletin boards by contacting a users' group in your area for your brand of computer. Some groups also publish catalogs and reviews of shareware.

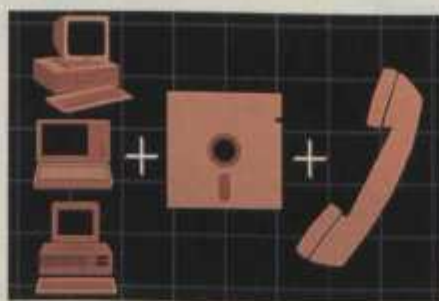
CompuServe, The Source and General Electric's GENie all maintain librar-

ies of shareware that you can copy, usually for only the price of connect time.

Shareware authors are not necessarily professional programmers; the quality of their work and support varies. In essence, you are their guinea pig, since they rely on you to improve their creation. But if you see a shareware product in its third version, or if it is distributed by a company that specializes in shareware, you can assume that it is reasonably bug-free. Shareware companies with strong followings include Button Ware, Brown Bag, Quicksort and Magee Enterprises.

A good source of information on shareware is *Shareware Magazine*, PC-SIG, 1030 East Duane Avenue, Suite D, Sunnyvale, Calif. 94086; (408) 730-9291.

Searching for online information is relatively simple: A phone, depicting a modem, dials the service. Next, communications software on a disk links the PCs to the database.



Dialog itself is quite expensive and not used much by smaller businesses, which generally prefer to use the company's other online service, Knowledge Index.

Knowledge Index is a subset of Dialog's vast set of databases, and although it is aimed at the home user (the database is available only during off-peak hours), it can be extremely valuable to the budget-conscious smaller business. Knowledge Index charges a flat rate of \$24 per hour for its information, and it allows searches that could not be done even with several hours in the library.

Major gains in productivity can also be made with E-mail—electronic mail service. E-mail can eliminate the frustrations of missed telephone calls—and can cut expenses.

The E-mail user dials the local or toll-


free access number, and logs on to his or her personal mailbox. Then an electronic message can be sent to any other subscriber or to a list of users. The user can receive any mail waiting in the mailbox.

A service like MCI Mail, the leader in the field, also can print messages and deliver them. A message of up to six pages can be sent via computer and

delivered overnight to most addresses in the United States (including non-MCI subscribers) for about \$9. Messages can also be sent internationally.

A business person can use E-mail to update information quickly for a field sales force. The process is faster than the U.S. mail, eliminates telephone messages, cuts repetitive work and paper costs, and allows sales representatives in different time zones to pick up the message as soon as they arrive at work.

With such features available and with software and online databases becoming easier to use, computers are proving to be most effective for large and small businesses alike when they need quick access to news and research information. **■**

 To order reprints of this article, see page 61.

Leading Vendors Of Online Information

This list identifies some of the better-known online vendors of business-oriented products and specialized services such as teleconferencing and electronic mail. The user pays a sign-up fee and a per-minute connect charge.

The Source, 1616 Anderson Road, McLean, Va. 22102; (800) 336-3366. Offers 800 features and programs, including Management Contents, Ltd., a database of the past two years' worth of articles from more than 100 international business journals and magazines. Sign-up cost is \$49.95, plus \$10 shipping and handling and a monthly fee credited toward charges for use.

CompuServe, 5000 Arlington Centre Boulevard, P.O. Box 20212, Columbus, Ohio 43220; (614) 457-0802. Caters increasingly to the small-business user. Hundreds of special-interest groups meet at set times online to chat about subjects such as taxes, venture capital and computers. The sign-up cost of \$39.95 includes a \$25 usage credit.

BRS: After Dark, BRS Information Technologies, 1200 Route 7, Latham, N.Y. 12110; (518) 783-1161. Offers 15 business and finance databases, which are accessible at a reduced rate at night and on weekends. Sign-up cost is \$75.

Dow Jones News Retrieval, Dow Jones & Company, P.O. Box 300, Princeton, N.J. 08540; (800) 257-5114. The industry leader for stock quotes on more than 6,500 companies. A new feature, Quick-search, is a technique for tapping into six business databases by entering either the stock symbol or the company name. Sign-up for corporate accounts is \$49.95, including eight free hours of connect time.

DIALOG Information Services, Inc., 3460 Hillview Avenue, Palo Alto, Calif. 94304; (800) 352-6050. Offers over 200 databases, more than 20 devoted to business. Knowledge Index, a subset of the larger system, offers 26 databases at a lower rate after business hours. Sign-up is \$145, which includes \$100 worth of free access time during the first 30 days.

Mead Data Central, 9393 Springboro Pike, P.O. Box 933, Dayton, Ohio 45401; (800) 227-4908. NEXIS (business and news), LEXIS (legal research) and MEDIS (medical research) are full-text retrieval services. Rates depend on individual needs; per-search charges are usually \$7 to \$30 for NEXIS.

NewsNet, Inc., 945 Haverford Road, Bryn Mawr, Pa. 19010; (800) 345-1301. Considered to be one of the best-designed systems, NewsNet offers full-text articles from more than 300 sources in 34 industries and professions. Monthly subscription fee is \$15; a typical search charge is \$20.

Uncle Sam's Free Facts

The federal government is perhaps the biggest dealer in electronic information. Much of it is contained in electronic bulletin boards compiling current data that might not be available in printed form for weeks.

The government does not broadcast the existence of its bulletin boards, but nearly every federal agency operates a few that are open to the public.

Best known is the Department of Commerce's Economic Bulletin Board, which charges users a \$25 sign-up fee for access to current government economic statistics and indexes. For information, call (202) 337-4450.

Perhaps least used is the Export-Import Bank's bulletin board; for information, call (202) 566-4690. It supplies—without charge—data on the foreign-trade situations in 83 countries and provides a forum for exchanging messages with other exporters, commercial banks and the Ex-Im Bank itself.

Dialing (301) 948-5718 by modem gives you the National Bureau of Standards' bulletin board for computer information.

To learn what else is available, use your computer to dial the Department of Commerce's Economic Bulletin Board at (202) 377-3870. It lists other agency bulletin boards.

Scalpel, Sutures, Credit Card...

By Bill Chastain

The last thing that a medical patient wants to worry about is how to pay the doctor's bill. And the last thing a physician wants to think about while treating a patient is how payment will be made.

For doctor and patient alike, a prescription for avoiding bill-payment headaches could be one of the health-care credit cards now being marketed. One such card is Health Cap, created by Dr. Laurence Fendrich, a dentist in Tampa. He says his health-care card soon could be accepted nationwide as a way to pay for doctors' fees, laboratory tests, hospital stays, surgery—and even veterinary care for house pets.

Fendrich, 32, founded the Tampa-based company that issues the Health Cap card. The card is designed to work like a major credit card, except that it can be used only for medical, dental and other health-care bills. "Most people who have credit cards don't like to have their minimum balance spent on an operation or some kind of dental work," Fendrich explains. "Instead, they would rather have something like Health Cap handy for that type of thing."

Health Cap, launched three years ago, has nearly 50,000 cardholders, Fendrich says, and is accepted at 1,300 health-care offices by about 1,500 doctors, 60 percent of them in Florida and the rest in 34 other states.

Like other credit cards, Health Cap charges users a fee based on the outstanding balance and calculated at an annual percentage rate, currently 18 percent.

For the doctor, use of the card can reduce cash-flow problems and can reduce if not eliminate the need to set payment schedules for patients.

Looking for solutions for such problems, Fendrich conceived the Health Cap idea and in 1985 persuaded Citizens & Southern (C&S) National Bank, in St. Petersburg, Fla., to back the program. C&S decides on patients' applications for the Health Cap card and collects the charges made with the card.

A participating doctor pays an initial fee of \$349 plus \$10 a month to lease a terminal to process transactions. A



PHOTO MICHAEL MURRAY

Tampa dentist Laurence Fendrich displays the credit card that he developed for patients to use in paying for various health-care fees.

Health Cap cardholder pays \$24 a year.

When a patient presents the card at a doctor's office, the transaction is recorded; the patient's account is charged; he or she receives printed verification; and the total fee is credited to the doctor's bank account.

C&S was cautious about Health Cap in 1985, since it was a time when some credit-card operations were failing, says David Meyer, senior vice president of the C&S bank in St. Petersburg. "We started out conservatively and concentrated on quality rather than growth. Now I can easily say it has exceeded what I thought to be its potential. It's growing like wildfire."

Another such card, the American Medical Credit Card, is headquartered in Brentwood, Tenn., near Nashville. It began at about the same time as Health Cap and has more than 60,000 cardholders in Tennessee and adjoining states,

Charge cards for medical expenses could help solve some payment problems for doctors as well as patients.

where it is being test-marketed, says a company official.

The card costs \$15 per family per year, uses computer terminals for entering charges and is accepted at more than 1,400 medical facilities. The card is popular with college students, says Nick Petrella, vice president of American Medical Credit Corporation. He says that many students—and their parents—like to have a credit card for health-care expenses so that such charges will not tie up large portions of their credit limits on major cards.

Marketing the Health Cap card to doctors has been "our biggest problem," Fendrich says. While the card is marketed to consumers mainly by direct mail, it is sold to doctors largely through sales calls to their offices and advertising in medical journals.

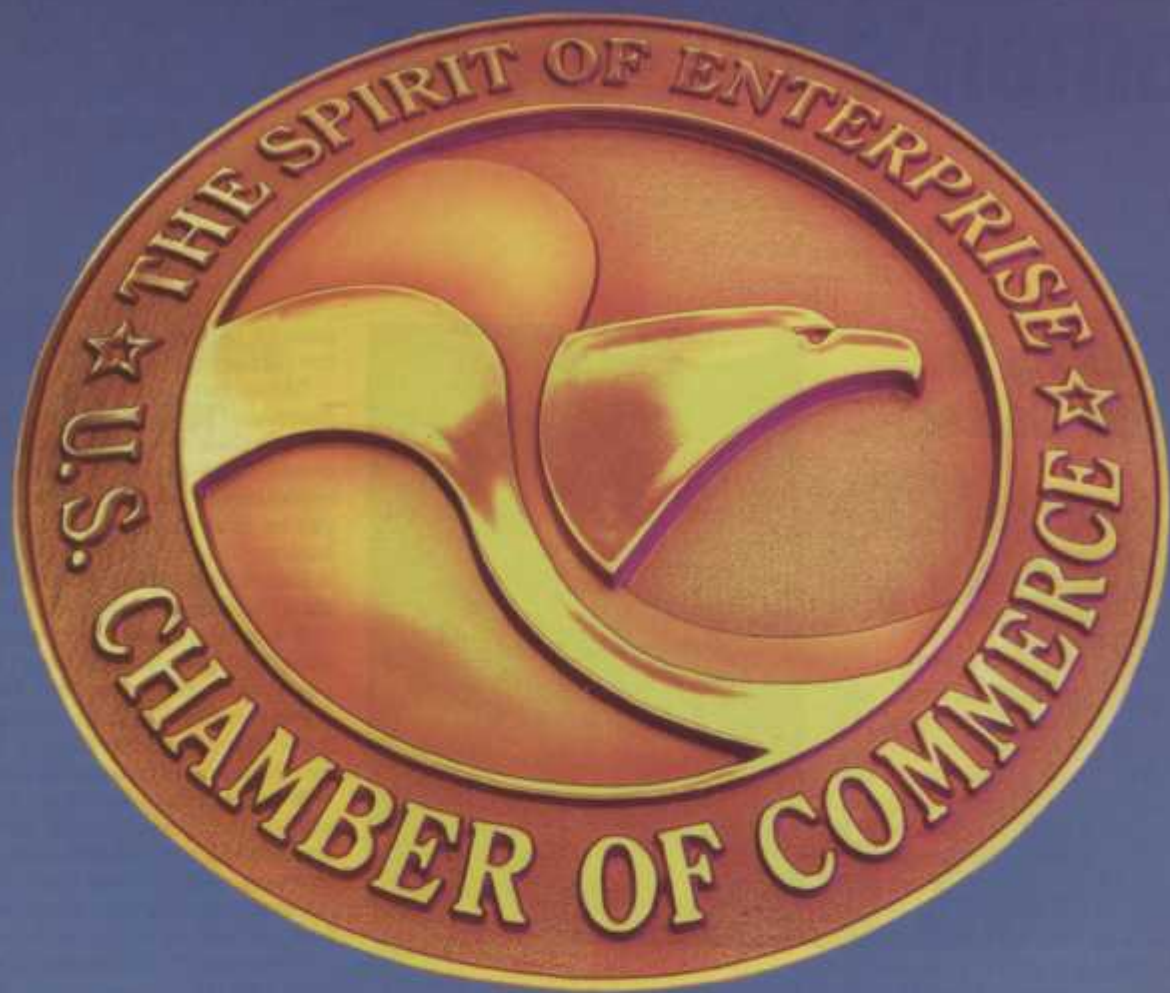
Among the health-care professionals who have signed on with Health Cap is Tampa dentist John Solak. He says the card "makes dentistry services more available" to some who might have difficulty paying for them. "And it's not a credit card someone can get himself in a jam with. People can't fly to Vegas with it or go out and buy a dress. Face it, there's not a lot of people who are going to impulsively go out for a couple of crowns on their teeth."

Yet some have expressed reservations. A Tampa pediatrician who had not heard of Health Cap, and who declined to be named, stated: "We [doctors] have a responsibility to see about the welfare of our patients. At times this responsibility extends to the good will we offer them."

"One man who brings his five kids to me... makes \$14,000 per year. So what are you going to do—turn him away if he can't pay? Of course you can't do that. But you would like to get paid for your services. In that respect the card sounds good. On the other hand, I feel better if the patient pays me when he can rather than having him put at the mercy of the finance company by using some medical credit card."

For Fendrich, Health Cap has had a major impact. He has scaled back his dentistry practice to one day a week and spends the rest of his time on Health Cap business. And if the card catches on nationwide, he says, he may give up dentistry altogether. ■

Bill Chastain is a free-lance writer in Tampa.



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Women's Business

By Sharon Nelton

Volunteering To Help Your Career

Janice Zarro has a theory: In order to do the best job for your company and escalate your own career, you have to be "multidimensional." And one way to achieve that is through carefully selected volunteer work.

As vice president of federal and state affairs for Avon Products, Inc., she spends much of her time lobbying the members of Congress.

But since 1982, she has also made time to chair the Women in Business Committee of OEF International, a Washington-based nonprofit organization aimed at helping poor women in Third World nations improve their economic and social conditions.

One of OEF's priorities is the development and expansion of small businesses run by women. OEF (formerly the Overseas Education Fund) works in 16 countries in Africa, Asia and Central and South America. Zarro's committee consists of nearly 100 businesswomen from around the country, and it raises about \$150,000 of OEF's annual \$5 million budget.

To Zarro, volunteer work for women at the executive level is not a luxury, it is a necessity.

"To be truly good at your job, you have to be able to draw on a variety of people, relationships and experiences," she says. "You need sensitivity to diverse situations, and you must develop the antennae to sense the political climate around you. Not-for-profit work helps build these skills because you are put in touch with people you wouldn't otherwise meet."

Zarro says Avon encourages her OEF work because "one of the values of our company is that we offer resources and talent to improve life in communities wherever we're located." Avon does business in 50 countries, many of them the same countries in which OEF has programs.

"A partnership with the kind of work OEF does also enhances the role of Avon as a company that cares" in any given country, adds Elise Fiber Smith, OEF executive director.



PHOTO: KEN TOUCHTON

Smartly selected volunteer work not only aids others but also helps women build executive skills, according to Avon's Janice Zarro.

OEF has helped women start or expand baking, weaving, dairy, poultry and other enterprises and has taught them how to get bank loans and conduct marketing surveys. Zarro sees a

parallel between OEF and the work of her own company.

"Avon has been in business for 102 years, and for 102 years we have given women their first entrepreneurial experience," she says. "If you're an Avon representative anywhere in the world, you're learning how to run your own business."

Her advice to other career women about selecting a volunteer project:

- Look at yourself. Choose something compatible with your style and your personality. Consider how it will broaden you. Will it give you valuable leadership experience? Will it teach you more about how the world works?

- Look at your company. Its constituency and interests will provide the clues to the kind of volunteer work the company will support your doing. For one company, it might be education; for another, arts or sports.

"Because of the nature of our business and the constituency that buys and sells our products and helps manufacture them, it was clear that we have a responsibility to women," says Zarro. Also clear was her company's interest in the international community. So she looked for a project combining women and an international focus. When she found OEF, she "thought the fit was absolutely perfect."

Billion-Dollar Businesswomen

Last May *Nation's Business* brought you a story on the women in the United States who are managing sums of more than \$1 billion. It focused attention on women such as Marion O. Sandler, co-CEO of Golden West Financial Corporation in Oakland, Calif., and Wendy Luscombe, president of Pan-American Properties in New York.

More names can be added to the list. Ann Dore McLaughlin has been appointed U.S. Secretary of Labor and administers a \$28 billion budget. Ellen M. Hancock recently was pro-

moted to general manager of communications systems at International Business Machines Corporation, and is in charge of telecommunications-products revenues said to be \$4 billion to \$5 billion. Rose Mofford, as acting governor of Arizona, oversees a state budget of nearly \$3 billion.

Nation's Business wants to keep you posted on the growing number of American women who are worrying about billion-dollar sums. And we'd like your help.

If you know of any woman in business or government who is overseeing \$1 billion or more annually, let us know about her. Write to: "Women's Business," *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

Today's savvy women executives are landing more billion-dollar responsibilities, starting more businesses and learning to use community work as a means of enhancing job performance.

If Your Ex's Name Is On The Door

What do you do when the company you own bears the name of your ex-husband? Elizabeth and James Hirsch started James Hirsch Furs in Dallas 25 years ago. They divorced in 1978 but continued to run the \$10-million-a-year company together amicably; in 1985 Jim retired and Liz bought him out.

Liz Hirsch was faced with establishing her own identity with the firm. Since she had always been with the company, people associated her with it. "What was not known [to outsiders] was my capacity to manage things," she says. And because the company continued to pay its bills on time, she never had a problem in dealing with vendors or bankers.

She did, however, take several steps that fortified her new role. She "trained" outsiders to ask for her when they called for Jim. The receptionist would put callers through to Liz; she would tell them that Jim had retired and would make it clear that she was the decision maker.

Newspaper articles about the change of hands helped inform the public, but the company also initiated a series of ads called "Memos from Liz." The ads read like short personal letters and invited readers to "just call Liz."

"It made people aware of me and it also made them feel that when they went out to buy a fur coat, there was a real person they could buy it from," says Hirsch. "It's the most effective advertising we have ever done."

A few callers were unhappy customers. Hirsch took the opportunity to make them happy by handling their complaints personally.

While she says she encountered no real obstacles in the company transition, she was stung once when a male customer said, "Gee, do you even run the money part?"

"I really resented that and I was upset about it, but I don't think you can let those things show," she says. "You have to show them that you can do it by doing it."

To other women with a similar need



Her ex-husband's name on the marquee doesn't bother Elizabeth Hirsch. She owns the business—and everybody knows it.

to establish their identity as head of a company, Hirsch offers two suggestions: Do your work well and pay your bills on time.

"In the end, that is really what peo-

ple are looking for," she says.

Why didn't Liz just change the name of the company? For "a very practical reason," she says, "We had been in business since 1963, we had invested a lot of money in advertising and promoting the name and we had a very fine reputation, and I didn't feel that I wanted to change it. I just don't think it's a big deal."

About Entrepreneurship

Expand Your Business. The Office of Women's Business Ownership of the U.S. Small Business Administration is sponsoring eight conferences aimed at helping women entrepreneurs expand their businesses. The Business Expansion Conferences will cover topics such as buying a computer, buying out another business, establishing "satellite" operations, cash flow and franchising your operation.

A tentative schedule calls for sessions in Iowa City, Iowa, and Washington in May; Hartford in June; Denver and Honolulu in July; Dallas in

August; New Jersey in September and Seattle in October.

Three pilot conferences for women thinking of starting a business are also in the works. Called "It's Your Business," these programs will be held in San Diego in June, St. Louis in September and Tampa-St. Petersburg in October.

For specific dates and more information, contact the SBA answer desk at (800) 368-5855. In Washington, call 653-7561.

More Owners. The number of women-owned firms continues to grow, according to new Internal Revenue Service statistics. Female-operated sole proprietorships jumped 10.5 percent—from 3,383,000 to 3,738,000—from 1984 to 1985.

Direct Line

Information about protecting slogans, starting a detective agency and opening a restaurant.

Unprotectable Verse

I have an original idea for a bumper sticker. Is there any way to keep others from capitalizing on my verse if I should put it on bumper stickers and postcards?

C.H., North Bend, Ore.

No. Federal copyright law doesn't protect names, titles, slogans or short phrases, whether they are on bumper stickers, greeting cards, T-shirts or other consumer items, says attorney William Patry, chairman of the Copyright Law Committee of the American Intellectual Property Law Association, in Arlington, Va. You can find the appropriate legal citation under Copyright Office regulation 37 CFR 202.1a.

Secondhand Information

I want to publish an insurance newsletter for distribution to agents and brokers. Most of the information would come from magazines, trade journals, insurance-company publications, etc. How do I handle ideas and facts taken from other publications?

J.B.M., Malone, N.Y.

Carefully, says Fred Goss, executive director of the Newsletter Association. Recycling information taken from another publication is a gray area in the law.

Goss advises that you write the editors of the publications you plan to use as sources and tell them of your intentions. Unless you hear otherwise, assume you have implied consent to use material taken from these publications. It would also be a good idea to cite the sources of the information you use.

The association produces a free information packet with background on the newsletter business and practical help for starting your own publication. The address is 1401 Wilson Boulevard, Suite 403, Arlington, Va. 22209.

Computer Instructions

I am interested in starting my own computer training and consulting business. Are there any software programs or literature that might assist me in developing a business plan?

W.H., San Francisco

Libraries and bookstores have many



ILLUSTRATION: WILLIAM COULTER

books on writing business plans. You also might try the Small Business Administration at 211 Main Street, San Francisco, Calif. 94105; the phone number is (415) 974-0642. Someone there can guide you on writing a business plan.

For information about software programs, contact the National Technical Information Service, U.S. Department of Commerce, 5285 Port Royal Road, Springfield, Va. 22161; (703) 487-4600. Ask for the free catalogs: "Directory of Computer Products" (PR260), "Directory of Computer Software" (PR261) and the NTIS general-information catalog (PR154).

You also could contact the Software Publishers Association, 1111 19th Street, N.W., Suite 1200, Washington, D.C. 20036; (202) 452-1600.

Investigating Preliminaries

I am interested in starting a private investigation agency in my area. I would appreciate any information on licensing requirements and business procedures.

J.K., Kane, Pa.

For information on licensing requirements, call the county clerk at the McKean County courthouse, (814) 887-5571.

Vance Morris, a private investigator and executive director of the World Association of Detectives, says that to qualify for a license you must have some background in insurance adjusting, or experience working for another investigator or for any of the federal

government's intelligence services, such as the CIA, the FBI or the National Security Agency.

Some states, such as California, will accept investigative news reporting as half of the licensing requirement.

Morris also recommends auditing law-school classes on torts and the theories of negligence and evidence. Or you might buy the narrative volumes (not the case histories) of negligence and evidence at a store specializing in law books.

For more information, contact Morris at the association: Box 5068, San Mateo, Calif. 94402; (415) 341-7277.

Fast Food, Filipino-Style

I would like to open a fast-food restaurant specializing in Filipino dishes, but I have no prior experience in running such a business. What types of literature and assistance are available to inexperienced people like me?

M.S., San Francisco

First, write or call the Information Department of the National Restaurant Association, 311 First Street, N.W., Washington, D.C. 20001; (202) 638-6100. You will receive a starter packet that includes articles, how-to materials and sources of information on entering the restaurant business.

You also should talk with someone at the Minority Business Development Agency of the U.S. Department of Commerce.

The MBDA assists minority firms and potential entrepreneurs through a nationwide network of Minority Business Development Centers.

There is a regional MBDA at 221 Main Street, Room 1280, San Francisco, Calif. 94105; the phone number is (415) 974-9597. **B**

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.



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Errors On The Job Can Be Reduced

By William Hoffer

A veteran commercial pilot inadvertently shuts down his jetliner's engines after takeoff, correcting his mistake just in time to prevent a crash.

A law firm employee doing paperwork on a \$93 million lien omits three zeros from the figure, recording it instead as \$93,000 and leaving the lienholder vulnerable to a \$92,907,000 loss.

A nuclear plant's control-room operators, trying to cope with a mechanical malfunction, turn off a cooling system during a period when it might have reduced the risk of radioactive material escaping from the plant.

Workplace errors such as these in recent years have spurred the efforts of some behavior researchers trying to determine just why capable people make mistakes on the job, and how such mistakes can be reduced. The approach of some of these researchers has been running counter to earlier strategies in dealing with workers' fallibility.

In the past, many businesses have attacked error by cajoling or threatening their employees to pay more attention to their tasks. Such efforts often took the form of a "zero-defects" campaign. But according to a current opinion in error research, that type of strategy is based upon two erroneous assumptions.

The first is the notion that all errors can be eliminated somehow. "Several studies indicate that errors occur randomly in time," says John W. Senders, resident professor of engineering and psychology at the University of Maine in Orono. "There really is no way to stop them from occurring."

Modern error analysis, therefore, seeks not to counteract or eliminate all errors—now seen as impossible—but rather to acknowledge the existence of error, prepare for it and minimize its consequences.

"Our emphasis is not to eliminate error, but to reduce the incidence of critical error," says Senders.

The second mistaken assumption about on-the-job errors is that they are necessarily the fault of the employees. Alan D. Swain, senior scientist at Argonne National Laboratory and a consultant based in Albuquerque, N.M., contends that most critical errors result



ILLUSTRATION: JOHN RICE

from faulty workplace design. And since it is management's responsibility to provide the workplace, management bears the responsibility for error, he maintains.

Swain categorizes workplace errors as either "situation-caused" or "human-caused." Analysis shows that situation-caused errors—those related to the design of the work environment—account for about 85 percent of workplace errors, and the rest are human-caused mistakes. Most errors, says Swain, should be seen "as the natural outgrowth of some unfavorable combination of people and work situation."

This was illustrated by what some error researchers informally call the "Gold Box Study." In a certain manufacturing plant, workers handling an expensive and breakable gold-plated component called the "gold box" often dropped the object. Though management accused the workers of carelessness and threatened punishment, the "gold boxes" continued to hit the floor at an alarming rate.

In desperation, management hired a consultant, a specialist in human-factors research, who took a simple if often-overlooked action: He watched the employees work. Management had told the consultant that each "gold box" was handled no more than 100 times during the production process. But the

researcher counted at least 1,000 opportunities for each "gold box" to be dropped. Though employees were being careful, they simply had too many chances to drop the component.

The consultant helped the manufacturer to redesign the assembly line so that the opportunities for error were reduced from 1,000 to under 100. The breakage rate dropped dramatically.

It has been known for some time that certain factors such as routine, fatigue, stress and distraction—notably noise—are associated with errors. Chief among these so-called error factors is routine—a finding that holds even for those whose job is to find errors. Swain says that inspectors—men and women who are supposed to spot other people's mistakes—generally fail to find 15 percent of all defective products. Since most products are not defective, the inspector becomes accustomed to seeing no defects.

Encountering this problem at a defense plant, Swain suggested that no one should be assigned to inspect for longer than a half hour at a time. This would assure that each inspector presumably would be more rested and vigilant. "This one change," he says, "was enough to reduce the number of defects getting by the inspectors."

Researchers now understand better how the error factors disrupt thought

While to err is human, your employees' errors might be lessened if you see their mistakes arising from typical causes such as routine, fatigue, stress, distraction, noise and workplace design.



processes. "I believe it foolhardy to attempt to determine the reason or cause of an incident," says Donald A. Norman, director of the Institute for Cognitive Science at the University of California in San Diego. "Many or most incidents are bound to have multiple causes," he says, and often it is found that the absence of any one of the causes would have prevented the incident.

Norman has spent years compiling examples of errors, such as the incident involving two sales clerks in a department store, standing side-by-side and each talking on the phone. In order to grab a sales form, one clerk moved behind the other, so the two women switched positions. When the first clerk completed her call, she placed her receiver on the other clerk's telephone, cutting off the other call and angering the customer. A quick solution: two telephones of different colors.

Norman says such foul-ups result from the brain's penchant for developing shortcuts to handle routine matters. When you leave home in the morning, for example, you don't say to yourself, "Now I'm going to start the car and back out of the driveway." Driving to the office is so routine that your brain does not concentrate on each step. You simply decide to drive to the office, and your brain sets into motion the familiar

courses of action that normally lead you to your desk. That is a subprogram developed by the brain, says Norman.

He calls it a schema and says it unconsciously takes care of routine business, letting the conscious mind concentrate on other matters. The process usually works, but it is subject to glitches.

Trouble may surface when you try to run competing schemas simultaneously. Suppose that while you are driving and listening to the car radio, you hear a news report of a scandal involving a company in which you own stock. Suddenly you have plugged in a second schema—for paying attention to the news. Your memory flashes back to your recent decision not to sell that stock. Self-doubt creeps in. Is your judgment slipping? Your concentration shifts, and your drive-to-the-office schema gets pushed farther away from consciousness. You are trying to run too many programs in your brain at the same time. You drive right past your regular freeway exit.

Sometimes the brain assesses the available data and plugs in the wrong schema because it associates with a particular stimulus.

Norman cites the example of a person counting "eight, nine, ten, Jack, Queen, King." The person had been playing cards recently and the familiar

schema captured the brain's attention.

Or the proper schema is activated but then "decays," such as when you walk into a room and wonder why you are there, or you lose your train of thought.

The most important concept of modern error research is that such foul-ups are normal. The human brain has a phenomenal ability to store information, but it also possesses a disconcerting capacity for departing from the conventional track—which is the root of some types of errors, yet is also, many contend, a source of creativity. "To err is human" is a truism with important implications for the workplace; ignoring it can bring catastrophe.

Take the highly specialized work environment of an airliner's cockpit. By studying the layout of the control panel, Senders can see how a pilot could mistakenly shut down the engines in flight, as in fact occurred last year. Designers made an error, in Senders' opinion, because they placed the engine controls too close to numerous other switches that are used frequently. Only noncritical controls should be grouped together, he says, and critical controls should be located in control-panel areas not used routinely.

The underlying notion is that common elements promote error. According to Senders, "If someone plans to do Task A, then decides instead to do Task B, the more common elements [there are] in the two tasks, the greater the likelihood of error. Things that are done very often should be surrounded by things not very important."

At Sandia Laboratories, in Albuquerque, workers were enlisted to participate in their own analysis of how and where errors could occur. Seventy-five participants were asked to identify the possibilities for error in their job of assembling printed circuit boards. These were the real experts, since they were most familiar with the task, and they identified 157 significant difficulties that promoted error in their jobs.

One difficulty centered on a drawing of the assembly; the drawing was on a sheet of paper separate from its explanatory notes. In practice, the workers often relied upon their fallible memo-

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Errors On The Job Can Be Reduced

ries for the information in the notes, rather than take the time to find the notes. Says Swain: "One of the fundamental principles in the design of written materials is that if they are difficult to locate, or difficult or inconvenient to use, they will seldom be used."

Task analysis of a specific, error-producing situation often results in significant improvements. But management must be forgiving, because employees are more likely to cooperate in the postmortem of an error when they understand that its purpose is to upgrade the work environment, not to fix blame or exact punishment.

Swain cites an example that took place in a laboratory where a chemist was conducting experiments with tritium, a radioactive gas. A potentially dangerous leak occurred, and Swain was called in to analyze the incident. He interviewed the chemist and his assistant, and watched them at their tasks.

His observations and recommendations, while specific to the incident, illustrate general principles. For example, he learned that the assistant was new on the job, which raised a red flag. A supervisor, says Swain, should assume that a new employee is more likely to make an error.

The technician had been required to replace an empty bottle of tritium with a new one. Although he had not been trained for the task and there were no written instructions for it, he believed he could accomplish it. While such initiative may be laudable for some tasks, it can be dangerous for others. New employees should be instructed not to exceed their training in critical areas.

The lack of written instructions increased the risk of error, Swain says. Experienced workers generally assume that their oral instructions are fully understood by inexperienced workers, he says, and those who are inexperienced don't like to admit that sometimes they do not fully understand what they have been told.

The critical mistake in the incident of the tritium leak occurred when the technician left the tritium valves open when he removed the old bottle. But Swain also says the designers of the system were at least as culpable as the employee. The valves had no indicators for determining whether they were open or closed. One valve was beneath the apparatus, an error-producing placement described as "out of sight, out of mind."

Furthermore, the gauges monitoring the valves were in a remote position. And although the tritium release set off automatic alarms, employees ignored them because the laboratory had been plagued by previous false alarms.

Studying such an error in retrospect is vital to the safe conduct of future business, and it may be a grievous error in itself simply to blame the employee who happened to be on the scene at the time.

After the accident at the Three Mile Island nuclear power plant in Pennsylvania nine years ago, Senders studied the basic design of a nuclear-plant control panel. He found a confusing maze of some 3,000 instruments and switches. There were countless errors waiting to happen, he concluded.

At one plant, two identical switches were placed side by side, yet they regulated the reactor control rods in critically different ways. It would be simple to throw the wrong switch and produce a disaster. Realizing this, the operators had to make a distinction—something that the designers should have done for them. The operators attached a Heineken beer tap handle to the "rod control" switch and a Michelob handle to the "partial rod control" switch in order to remind themselves which was which.

The potential for error is all about us. The close spacing of buttons on a telephone makes it easy to reach a wrong number. The compact keyboards on miniature calculators can foster math errors. You may turn on your car's windshield wipers when you mean to dim your headlights if those functions are controlled by the same knob.

We must redesign our philosophies of design, says Senders. We must make machines compatible with the way people function, rather than make them so similar that their sameness promotes error.

Senders contends that the *ability* to err is a special, even beautiful human trait, and there may be no way to eliminate it. It is desirable to reduce the quantity of errors, and it is necessary to lessen their consequences. But we cannot—nor would we wish to—eliminate the tantalizing capacity of the human mind to discover random new pathways. "Imagine a human being who didn't make errors," says Senders. "Other people wouldn't see the error-free person as human. He or she would be incredibly dull." ■



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Making It

How a high-tech inventor, a high-powered auto dealer and a high-speed fan in a wheelchair took the high road to success.

The Electronic Blackboard

Leonard Reiffel tries to mesh technology with people, and if you want to know how he does it, he can draw you a picture—on a television screen.

The football fan knows Reiffel's most famous invention, the Telestrator, as John Madden's "chalkboard," a device used by the CBS commentator to diagram the finer points of game action.

When Madden diagrams a replay, he is watching the same image you see at home. He draws with a stylus on a "hot" sheet of transparent conductive film affixed to his monitor's screen. As Madden draws, the film sends high-frequency radio signals to a microprocessor that instructs the screen to illuminate the points the stylus touches. With Madden's diagram thus superimposed on the action, this image goes out over the network. At his option, Madden can work with thick, thin, or dotted lines, and even arrows or circles.

The rest of us can use the Telestrator at Walt Disney World's EPCOT Center, where an average of 600 visitors per hour play with what seems to them an electronic toy. But the Telestrator is in fact highly adaptable to business applications, such as seminars and teleconferences, and to communications in general.

Reiffel, 60, is not only an inventor but also a businessman—founder, chairman and chief executive officer of Chicago-based Interand Corporation, a company with around 115 employees and 1987 sales of more than \$4 million.

He started as an electronics prodigy. After graduating from the Illinois Institute of Technology at the age of 19 (he later earned a master's degree and a doctorate from the same school), he was hired for the highly classified Project Paper Clip, a U.S. Army study of a captured German gun that could shoot projectiles with an electromagnetic force. After that, he worked with Enrico Fermi and the University of Chicago team that developed the cyclotron into an efficient atom-smashing device.

In the mid-1950s, he found his first



PHOTO: CHRISTOPHER KEAR

Leonard Reiffel of Chicago's Interand Corporation is seen here with part of his Discon teleconferencing system.

niche as an intermediary between technology and the layman. His affable personality, clear, deep voice and ability to translate obscure scientific concepts into everyday language landed him a part-time role as science commentator for CBS television.

Between 1965 and 1969, he worked for the National Aeronautics and Space Administration as deputy director of the Apollo moon project. He quit to form his own company, Instructional Dynamics (the forerunner of Interand) and introduced the Telestrator soon afterwards.

Reiffel refined the Telestrator into a business tool known as the Discon teleconferencing system, which he introduced in 1981. Like Madden, the business communicator need only pick up a stylus and draw directly on a television screen to illustrate and amplify charts, diagrams, photographs, maps, blue-

prints, statistical tables—any video image. General Motors and Texaco are among the regular users of the system.

The success of the Telestrator and Discon was the key factor in a public offering of Interand's stock in 1982.

The company's path since then has not been uniformly smooth. In 1984 Interand, in partnership with Japan's Nippon Telegraph & Telephone Corporation, embarked on a program to integrate Discon into Japan's national communications network, and to develop new electronics communications packages. At the same time, Interand entered a marketing agreement that made the huge Marubeni Corporation its exclusive distributor in Japan. But start-up costs have been high.

"We spent more money than originally budgeted, delayed new products that would have helped 1986 sales substantially, and took a variety of other actions that cumulatively traded off 1986 performance for the good of 1987 and beyond," Reiffel says. Interand's revenues fell from \$6.2 million in 1985 to \$4.2 million in 1986 and remained flat through 1987. But the company has bor-

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Making It

PEOPLE

The Electronic Blackboard

rowed \$3 million from Marubeni on favorable terms and will not have to borrow further to finance the NTT deal.

Another plus for 1988 is the prospect of increased sales of the Discon Imagephone, described as a "telephone with eyes," which allows quick and easy visual communication over ordinary telephone lines. The Imagephone has been available for business applications for about a year, but Interand recently made it compatible with the U.S. government's TEMPEST system (which protects the security of computerized information), and thus opened up the entire market of classified-information users.

Reiffel's twin roles as inventor and businessman make him a natural advocate for the adaptation of technology to commerce. Thus far, he sees limited progress.

"When I worked at NASA," he recalls, "I watched the painful struggle of government officials trying to get space-age technology adopted by the business world. All through government and academia there are huge storehouses of technology not utilized by business. If we in the United States had the openness to adaptation of the Japanese, we would be infinitely ahead of where we are now."

Even though businesses have learned to use computers successfully, he says, many other promising technologies remain largely untapped.

"Perhaps there is a special role here for small business," he speculates. "If you had a mechanism for a small businessman to focus his entrepreneurial eye on his area of expertise and filter the information to his compatriots—if you took some sleeves-rolled-up, cigar-chomping metal-foundry owner and provided him with some kind of information flow—if you threw all kinds of information at him, and said, 'Throw away 98 percent of this, but 2 percent will be useful'—I think you could get a good competitive advantage" in the world economy. The businessman would in Reiffel's scheme share his knowledge with others in his industry, through an association forum or a similar mechanism.

In Reiffel's verbal picture, the small businessman who could interface successfully with technology bears a strong resemblance to John Madden. This is no accident, for Reiffel believes that technology may achieve its most significant successes in the hands of the layman.

—William Hoffer

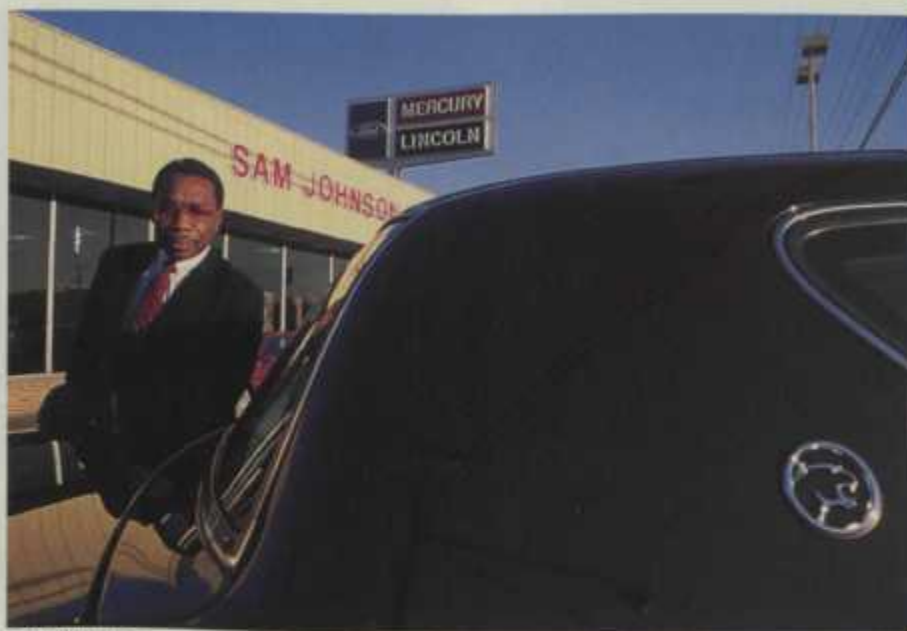


PHOTO: NANCY PERICE

An Auto Dealer With Drive

Talk with auto dealer Sam Johnson about business, and one word keeps popping up. Service, says Johnson, owner and president of Sam Johnson Lincoln Mercury Merkur, Inc. in Charlotte, N.C., is the key to his success. "I spend 50 percent of my time in the service department," he says. "I want to make sure my customers are treated right."

Johnson's style has paid off. He has built a group of businesses whose sales totaled around \$85 million in 1987.

In addition to his dealership, Johnson owns a rental-car business at the Charlotte/Douglas International Airport and a Ford dealership in Richmond, Va., and he is co-owner of another Lincoln-Mercury dealership in Charlotte.

It has taken Johnson about 15 years to amass his business empire. "During this period," he says proudly, "I have never had a year when I lost money."

Born one of 11 children to sharecropping parents in Arkansas, the 47-year-old auto dealer recalls the poverty of his early childhood. "I guess those memories have driven me," Johnson says. "I don't want to be poor like that again."

Johnson started at the bottom of the auto-sales business in 1959. He made \$25 a week washing cars and doing odd jobs for a Buick dealer in St. Louis. Two years later, Johnson started accepting

Sam Johnson says memories of his poor childhood spurred him to build a Charlotte, N.C.-based business empire whose sales last year totaled around \$85 million.

cars on consignment from his boss and selling them on the side.

Johnson became a salesman for the Buick dealer in 1965. During the next seven years, he built a reputation in the St. Louis area by selling about 300 cars a year. The average for a good car salesman—then and now—is about 150.

In 1973, Johnson paid \$250,000 for a near-bankrupt Ford dealership in a tough inner-city neighborhood in East St. Louis, Ill. He didn't see his investment as a risk: "I had been selling 300 cars annually at the Buick dealership. I knew that with four or five salespeople I could sell twice as many cars as that."

Johnson's mathematics proved accurate, and by 1977 he had saved enough money to open his dealership in Charlotte; he put up 20 percent of the \$700,000 investment required, and Ford Motor Company put up the rest. Johnson closed his East St. Louis dealership in 1979 and bought out Ford's interest in his Charlotte operation in 1981.

Even though the auto industry has made strides in recruiting minorities as dealers, Johnson believes a lot more can be done. He was instrumental in organizing the Black Ford-Lincoln-Mercury Dealer Association in 1979. Today the association, which includes about 110 black dealers, works closely with Ford in helping to identify and train qualified black dealer candidates.

"Hopefully," Johnson says, "we will be able to find success-oriented people who will help keep alive the partnership we have worked so hard to forge with the company."

—Ron Chapesiuk

Making It

PEOPLE

Man On A Fast Track

A love of cars—fast, colorful cars—is, Ronald W. Granlee believes, what accounts for where he is today.

That may sound odd coming from a man who is paralyzed from the neck down, confined to a wheelchair and accustomed to sleeping with a chest respirator. But Granlee remembers that one of the few things that quickened his spirits in 1950, when he emerged from a two-year stint in an iron lung, was a hot-rod magazine and its photographs. Two years before, at age 14, he had been stricken with a severe case of polio.

"When someone at the hospital where I was in the iron lung gave me a hot-rod magazine," he recalls, "I quickly became hooked on its cars and how people liked to make personal statements with them."

Though he has never been able to drive the hot rods of his dreams, Granlee, 54, has translated his affinity for fast cars into a successful business: distributing scale-model and radio-control (RC) race cars and their parts. Today his company, Speed/Sport Distributors, based in Cypress, Calif., counts as clients hobby retailers from Oregon to New Hampshire.

How long the five-year boom in RC cars (and airplanes) will last is a burning question for the U.S. toy/hobby industry.

Some in the business think the boom has already peaked, but Granlee, whose surging good fortune in business in the 1980s is due in large part to RC (now 80 percent of his sales), gives it two more years.

RC model cars are sold mainly as kits; if they are sold assembled, Granlee says, "they're more of a toy." RC cars' owners race them in competitions that go to the national and international levels; last year's world championship race was held in England. The cars—typically made on a scale of about one inch to one foot—are not inexpensive. Granlee says that an RC car can cost, at retail, from \$250 to \$1,000.

Granlee's career as an RC distributor is powerful testimony to what a love for an outside pursuit can do for an individual who has suffered an irreversible tragedy. He lost little time, after emerging from the iron lung, in immersing himself in the sport of speed

Ronald W. Granlee, shown here in his Cypress, Calif., office with his grandniece, Diana Brown, was left paralyzed by a severe attack of polio when he was a teenager. His love of

hot rods helped lift his spirits—and then led him to business success, as a distributor of scale-model and radio-control race cars.



PHOTO: T. MICHAEL REED

and its Daytona 500-style car replicas. He got help from a cousin who had bought an old Ford jalopy, and from high-school friends whose lives revolved around wheels. His mother helped as well. With her assistance he graduated from a Los Angeles junior college.

It wasn't until 1965, when he bought a dying hobby store in southern Los Angeles County, that Granlee took his first step into making race-car miniatures a paying business; a slot-car boom was in full gear at the time, and he drew customers by staging races. By the early 1970s, though, he had grown weary of dealing with the public, and he jumped at the chance when a manufacturer asked him to buy its West Coast stock of slot cars and become the company's California distributor. His warm relations with local slot-car track owners made him confident he could succeed.

Granlee operated out of his garage at first. Then he started carrying other lines of model cars, and gradually his garage filled up. Granlee moved into a larger building, but he outgrew it in two years. Then he rented one third of an 8,000-square-foot warehouse in northern Orange County—and he began to fill that up, too.

Today, Granlee owns that warehouse. He has six employees and is leasing a new \$50,000 computer system to track inventory.

What's selling nationally in cars depends, Granlee explains, on the type of racetrack in a given market. "In Florida, oval-asphalt car racing has taken

hold. In the Midwest, it is 1/12 scale during the indoor, winter season," but during the hot months the emphasis shifts to off-road cars, designed to run in the open country.

Granlee spends much of his workday seated near an assistant who records a constant stream of telephone orders.

"I did [telephone] business with Granlee for four years before I realized he is quadriplegic," says Duane Hesketh, who with his father owns the large Tammies Hobbies store in Beaverton, Ore., near Portland. "You call in an order, and he does sound a bit odd, since he repeats everything you say. Only gradually did I learn that he has someone at his side who jots down the order information he repeats. For a long time, I brushed off that habit as a simple idiosyncrasy. What is important is that his service is quick, he has the merchandise you need, and his employees are helpful."

Gary Beedle of Redmond, Wash., who worked for Granlee for a decade and became his partner in the business before striking out on his own as a scale-model manufacturer/distributor, says of Granlee: "He's a regular guy with a great sense of humor—about his business, and about everything."

About being a quadriplegic, for one thing. "When another employee would tease him about his handicap," Beedle says, "he would laugh and come back with a snappy retort. He doesn't take his handicap seriously; in fact, for the people around him, he's not handicapped at all."

—Joanne Gamlin

EXCLUSIVE REPORT



BRAZIL/U.S. BUSINESS: HOW IT IS WORKING HOW YOU CAN PARTICIPATE

233 successful businesses,
located in Brazil and
featuring BRAZIL/U.S.
cooperation, invested over
a quarter of a million
dollars to bring this
exclusive report to you.

BRAZIL/U.S. BUSINESS

It cost executives like you, in companies like yours, over two hundred and fifty thousand dollars to bring this information to you. Here's why we'd like you to read it.

Why would 233 CEO's of successful business enterprises and associations in Brazil (listed on the final pages of this supplement), some of which are neither Brazilian nor American, pay out over a quarter of a million dollars to bring this special supplement to you?

First, because all are committed to and confident in the future of Brazil. From a simple "return-on investment" point of view, we feel that the Brazil-U.S. "business connection" offers extraordinary opportunities for companies like yours and ours. We want to tell you about it.

Second, we believe that more Brazil-U.S. business relationships, like the ones you will read about further on, are important to prospects for our own businesses and vital to the best interests of both nations, economically, politically, and strategically, short and long term.

Finally, because we feel that healthy business relations generate mature relationships in all other areas, and that businesspersons active in the Brazil/U.S. business connection are normally extremely sane and sensible voices in their home countries when it comes to resolving potentially volatile international disputes. A good recent example is the contribution made by American and Brazilian businesspeople to a negotiated settlement to the impasse over Brazilian government policy restricting access to its computer market. Many in Brazil urged their government to take measures acceptable to the U.S., making the market more accessible to foreign companies. Simultaneously, many in Washington recommended that

their government postpone retaliation until such measures could be taken and that, when taken, they be interpreted in a positive light. As of this writing, negotiations continue without resort to retaliation, and we see this as hopeful.

So, 233 successful businesses and associations are investing a quarter of a million dollars to give you the facts about Brazil-U.S. business successes and, hopefully, bring more American and Brazilian businesses together in mutually profitable ventures, aligned with the national aspirations of both countries.

BIG PICTURE STUFF

Before that, it is worthwhile touching on the "big picture". Why are Brazil and the U.S. among the most natural partners in the hemisphere?

On the one hand, because of their similarities: Brazil's territory is roughly that of the continental United States, and its population of 140 million makes it the second largest democracy in the hemisphere and the third in the world. Like the U.S., Brazil is a "melting-pot" and has a population made up of all races, colors, creeds and nationalities.

Among the characteristics responsible for Brazil's peaceful return to democracy in 1985 are a natural affinity for freedom and an appreciation for much of what has come to be called the "American way of life". Furthermore, Brazil is often regarded, against its own wishes, as dominant in South America. Like the U.S., therefore, Brazil has at least continent-wide responsibilities. In a way, what the U.S. is to North America, Brazil is to South. And, if the

implications of Nicaragua's eventual political direction are a source of concern to the U.S., those of Brazil's would logically seem much more so.

And, as a business partner, Brazil offers extraordinary "macro" credentials. Here are a few facts, merely to give you an order of magnitude:

1. Physically, Brazil is the 5th largest country in the world. It occupies roughly half of South America and represents 35% of all Latin America (including Central America and Mexico). It has 17,000 miles of borders, and if you superimposed a map of Europe on Brazil, São Paulo would be on Milan and Manaus on Moscow.

2. It has the largest known iron ore reserves in the world and the largest project in the world (Carajas) to exploit ore. This project also can produce 1.2 billion tons of copper, 25 million tons of manganese, and 48 million tons of bauxite. Brazil also has 20% of the world's fresh water and 25% of its trees.

3. It is the world's largest producer of coffee and sugar, second of soy and cattle and third of corn. It is using only 25% of its arable land and the remainder is 25% of what is left in the world.

4. Its population, as a market indicator, is 140 million today, projected to 180 million by 2000. It accounts for 35% of Latin America's population, and half its population is under 20.

5. Its GDP is the eighth in the world, up from 47th in the forties. It has averaged roughly 7% growth per year over the last 30 years and is the largest of the developing economies. Its GDP is 50% greater than Spain, 65% larger than India, 100% bigger



than Australia, and double Mexico. (São Paulo state's product alone is larger than Argentina's and, in all of Latin America, second only to Mexico.)

6. Its industry is highly developed, diversified, and distributed around the country. It includes the 6th largest aircraft industry in the world, the 7th steel industry, and the 9th auto industry. (Brazil currently imports only about 5% of its GDP and exports about 8%).

7. Exports have gone from 44% coffee, as recently as 1965, to 2/3 manufactured in recent years.

8. Brazil's foreign investment rules have been stable for 25 years, and even during the moratorium, remittance of dividends was not impeded.

PROBLEMS AND PROSPECTS

All right, you'll say, those are very impressive statistics, but, "How can you do business down there? What about inflation? About government intervention? About price controls, the debt problems, the market reserves and restrictions, problems with import, and exchange regulations? The volatility of the economy plus the political uncertainty? And about all the other things we hear and read about?"

And, the honest answer is that all those factors are at work and certainly provide a continuing challenge. But not one is too great for businesses like those you'll read about further on, some of which have been around for more than 50 years without losing money (in real terms). And, we would propose, not too great for your company which must be able to find a parallel among the 29 described.

None of the CEO's or companies responsible for this supplement would tell you that business in Brazil is "easy" or deny that ongoing frustrations are often an integral part of it. But they will tell you that it has been worthwhile and admit to continued confidence in the country.

Some justification for this confidence can be found in the renewed democracy's vital signs after a very difficult beginning: President-elect Tancredo Neves died before inauguration, leaving his V-P, Jose Sarney to see Brazil through the transition after 21 years of military rule.

Hampered by political leaderships dating from before the 1964 revolution and by administrative organs from the military regime, used to answering to no one, the transition has not been an easy one. The economy was submitted to ineffective "shocks" against inflation, and political rhetoric, rather than reality, often prevailed at key moments. High turnover was the rule at the ministerial level.

Despite all this, however, the democracy is alive and gives indications of progressing. New leaderships are emerging and positively affecting the constitutional assembly. The legislative is stronger, and the judiciary has demonstrated its willingness to defend private sector interests against executive decree. The executive, after two years of seeking the "easy way out", has installed capable professionals at Finance and Planning, dedicated to controlling government spending and re-establishing relationships with the international financial community. A workable, if fragile,

pattern appears to be emerging despite everything, and there is, as always, reason to believe Brazil will find its way through its latest difficult moment as it has always done in the past.

And, throughout the turbulence and problems mentioned above, the businesses described in the following pages continue to cope and to, once again, present very respectable results. Their experiences, in capsule form, are chronicled here, as we said at the outset, in hopes that you will be encouraged to become a part of the Brazil/U.S. business connection. They were chosen at random, according only to their availability to reporters during January and the first half of February. Interviews with any of the other sponsors would have produced a similar pattern of success. No business "paid" to have its story told. Everyone invested only for the reasons mentioned at the outset.

HOW YOU CAN LEARN MORE

If you would be interested in learning more about Brazil/U.S. business and how you might participate, we will send you information on upcoming seminars, teleconferences, and business conferences planned for this year and next in the States and Brazil. Just write to "Brazil/U.S. Business", care of this magazine, or circle Number 108 on the Reader Service Card. For now, just keep reading.

Introduction by R. Christopher Lund, CEO of one of sponsoring companies.

Reporting pages 4 - 14 by Rik Turner and John Barham

Writing/Editing by Julia Michaels

Photos by Sue de Almeida

Graphics by Arnaldo Sedrani

BRAZIL/U.S. BUSINESS

From credit cards to electric motors, 29 success stories document the Brazil/U.S. business opportunity. Yours could be one of them.

Charge it

When American Express came to Brazil in 1981, the credit card company had to make an exception.

"We traditionally only wanted to develop card operations in markets without exchange controls, enabling card holders to use them internationally: this was the first market where we issued cards for local use only," says Jean Rozwadowski, president of the company's travel-related business operations in Brazil.

Brazil's foreign exchange situation forces it to keep a tight rein on dollars being spent and sent outside the country, but Amex decided to make the exception and get into Brazil for a number of reasons.

"We already had a lot of involvement here in other areas, such as our U.S. banking operation's project financing," Rozwadowski recalls. "In addition, we identified Brazil as one of the world's top ten banking markets in a study we carried out in the late seventies."

The reason for this high ranking is not only the country's 140 million population. Unlike American banks, Brazilian banks operate nationwide, with huge electronically linked branch networks. Because of this, a check can be cleared between the Amazon city of Manaus and the São Paulo metropolis in less time than it takes to complete a similar operation across a state line in the United States.

Bradesco, the largest private bank, has an installed data processing capacity bigger than the entire Canadian banking network, making it IBM's largest single customer outside the United States and Japan.

This environment, says Rozwadowski, weighed heavily in the corporation's decision to come in, since "our businesses are peripheral to the banking industry."

Amex has already moved beyond its original local-use cards in Brazil, in a small but significant way. Since 1986, the company has issued corporate cards to executives of major exporting companies, who naturally have to travel abroad all the time. "We already have a few

thousand of these cards in service here," commented the company's president.

Growth has been 20 percent a year, compounded, for the last two years.

The key to success in Brazil, says Rozwadowski, was the choice of the *Economico* and *Bamerindus* banks as equity partners. The relationship with local partners was of use recently, when the American Express bank decided to convert \$60 million of its share of the Brazilian foreign debt into equity, and bought a minority shareholding in *Conepar*, the *Banco Economico's* holding company for petrochemicals, currently one of the country's fastest-growing sectors.

Never a loss

Although the Brazilian economy always presents new challenges for American investors, few well-run companies lose money.

Du Pont do Brasil has never reported a loss in its 51 years of operation. In 1986 for example, a poor year for profits, Du Pont earned a respectable 27 percent return on assets of \$44.7 million.

Said Jorge N. Rosas, president of Du Pont, "The reason we're so interested in Brazil is that our company has decided to be a global company, that is, to be in a position to operate and supply all countries. It's no longer a question of supplying a country but of supplying the world. And a strong presence in Brazil is the *sine qua non* of being a global company."

Since arriving in Brazil in 1937, Du Pont has consistently expanded its operation, to include the production of freon, fungicides and herbicides, photographic products, "Lycra", and "Teflon", among other products, via both acquisitions and new plant construction.

Du Pont plans to invest \$450 million in Brazil over the next five years, as part of its strategy to raise local sales by 1997 to \$1 billion, up from \$270 million in 1987.

The company exports agricultural products, "Lycra" and electronics to



DU PONT'S ROSAS: Strong presence in Brazil "sine qua non" for a global company.

the United States, Latin America and Europe.

A joint venture with *Construtora Andrade Gutierrez*, a top civil engineering company, is also part of Du Pont's Brazilian expansion plans. If the government approves the venture, the partners will begin developing a \$200 million titanium dioxide mine.

The project will make Brazil self-sufficient in the mineral, which is used to make paints, plastics and paper. Du Pont makes paints in Brazil, and *Andrade Gutierrez* has a mining unit. It also has excellent relations with the government.

Du Pont is also an important supplier to the local clothing and automobile industries, for both domestic and exported production. The company's "Lycra" is used to make bathing suits and lingerie, and its plastics go into automobiles.

Truck pioneer

In 1954, Brazil imported more motor vehicles than wheat. Two years later, Mercedes Benz was installed and assembling the country's first homegrown trucks.

The company, which now also manufactures buses, has grown from one small factory to three plants, covering 6.5 million square feet. MB



MERCEDES BENZ' LECHNER: Current difficulties can be worked out.

do Brasil now boasts over 22,000 employees and 2,400 suppliers, and lays claim to the Western world's largest and most modern bus factory.

It is the largest Mercedes Benz operation outside West Germany.

In the last three years, MB has invested more than \$300 million, and plans on putting \$385 million more in investment over the next five years. The funds have gone towards adding and modernizing production capacity. This year, the company plans a nine percent production increase, up to a total of 47,500 trucks and buses.

The company is in the process of developing an entirely new line of trucks for the North American market, a huge investment which is possible only thanks to the German group's strategy of keeping its Brazilian subsidiary well capitalized.

Mercedes Benz has clearly believed in Brazil's potential in terms of both the local and export markets, as is demonstrated by its policy of remitting only very small dividends to the parent company, preferring to reinvest profits.

For the West German company, Brazil has long been an important contributor to its world production strategy. Since the 1970's, MB do Brasil has been supplying trucks to

the United States, and today claims parentage to a fleet of 50,000 trucks in operation there, where they were assembled from Brazilian kits.

"For Mercedes-Benz, (our investments) are proof of the company's confidence in Brazil and that the future will be even better than the past. For us, the current political and economic difficulties are of concern, but are seen as temporary, since they can be worked out," says Werner Lechner, president of the company.

Brazil, he adds, has been a worthwhile investment for Mercedes Benz. "Brazil is a country which, unlike most, has a combination of factors that ensure rapid and safe development: vast territory, enormous natural resources, a large population and an intelligent and hardworking people."

Bumper crop

Early this year, General Motors president Robert Stempel traveled to Brazil to announce the company's new investments there.

He told the Brazilian public that GM will invest \$200 million this year, the last chunk of a \$500 million investment that began in 1985. The company is also looking at the possibility of investing an additional \$500 million, beginning next year.

This year's funds are going to launch the Kadett in Brazil, to enlarge a factory, and to build a research and development center.

Like most of the automobile

manufacturers in Brazil, GM is bent on making the most of Brazil's low-cost, high quality production capacity, as part of its overall world strategy. GM may also manufacture and export mini-vans from Brazil, to the United States and Europe.

Lost and found

Browsing among the stalls at a Brazilian trade fair back in the 1960's, in Brussels, Ernest Paul had an idea.

Why not match up some of America's top retailers with the wonderful ceramics, furniture, leather, glassware, wood products, toys, and candy that Brazil had to offer?

Founded 18 years ago, Primex do Brasil was set up to source products out of selected Brazilian manufacturers, to clients such as F.W. Woolworth (in both the United States and Canada), McCrory Stores, Walmart, K-Mart, Montgomery Ward, and Pier One. The products are tailored to the retailer's requirements.

Today, Primex do Brasil exports through its New York parent company, Primex International Trading Corporation, about \$70 million worth of merchandise a year, accounting for about 75 percent of the group's world business.

Brake lights: full speed ahead

When Edgard Antonio Leonardi founded Tecnologias Mecanicas e Eletronicas four years ago, his idea was to fill a gap in the Brazilian market which his Purdue University mechanical engineering degree had led him to identify: plastic parts for the automotive, computer and electronics industries.

By 1987, Leonardi's company was established as a supplier of the local subsidiaries of Ford, General Motors, Xerox, Kodak, Philips, and Olivetti.

The contact with Kodak changed the whole direction of his business. The U.S. photographic giant put him in touch with the General Automotive Specialty Company, a New Jersey plastic light and



GM'S STEMPEL: New Brazilian investments announced.

BRAZIL/U.S. BUSINESS

There are many ways to do business in Brazil, alone or in partnership. There are examples on every page.

switch supplier that was looking to expand its operation.

General Automotive wanted to improve its competitive edge in the United States, while breaking new ground in other territories.

On both accounts, Brazil was an ideal choice. The country's diversified economy has a ready supply of potential local partners who can guarantee quality in exported parts to the United States. The auto industry, consisting of the Ford, GM, Volkswagen and Fiat subsidiaries, can manufacture 1.2 million cars a year. And it is rapidly expanding exports, especially to the United States and Europe, with foreign sales of \$2.8 billion last year.

TME was thus a natural choice to become the Brazilian partner.

Last September in Brazil, TME launched the Stoplite brand brake light, a product designed and developed by the American company. The next step will be the creation this year of General Automotive do Brasil, a joint venture in which Leonardi will have a controlling 55 percent share and his U.S. partner, the remaining 45 percent. TME will supply the new company with molded plastics.

"General Automotive do Brasil should have sales of around \$4 million a year, of which 70 percent in exports to the U.S. and the remainder in sales to the local market," Leonardi says, adding that the company will import American raw materials tax-free from the U.S. partner. Under the Brazilian government's "drawback" program, the raw materials will go into products manufactured for export.

The Brazilian connection is already bearing fruit, not only in terms of local sales, but also in new business for the U.S. partner.

General Automotive has traditionally been a parts supplier to General Motors, but the low-cost Brazilian production is helping to attract new customers, such as Ford. "We are currently developing specific packaging for our products for Ford's parts and accessories division, so that they can be distributed among Ford dealers in

the U.S.," says Leonardi, adding that the cost of producing the Stoplite in Brazil is half of the \$8.00 U.S. cost.

Technology trade

Licensing American technology has proved a profitable business for both Americans and Brazilians.

Six years ago, Industrias Romi began making numerical control machines under license from Allen Bradley, a machine tool subsidiary of Rockwell International. Now, Romi and Allen Bradley have decided to share the burden of developing the next generation of numerical control machines, to counter foreign competition to both.



ROMI OF INDUSTRIAS ROMI: Sharing technology with Allen Bradley.

Romi and Allen Bradley maintain close links during the development stages. When their products are ready, each will have open access to the other's technology.

Two way street

Petrobras, the state petroleum monopoly that is one of the world's largest companies, is also one of Brazil's biggest importers of technology, equipment, and chemicals, much of this from the United States.

Like many companies operating in Brazil, Petrobras must remain abreast of developments abroad and keep competitive in international markets. To do this, all businesses maintain close links with foreign suppliers of state of the art products.

Through its subsidiaries Petrofertil, Petroquisa and Petromisa, the company produces fertilizers, petrochemicals, and processed minerals, respectively, all of which involve close contact with U.S. companies.

Petrobras is also one of the world's chief gasoline producers for U.S. consumption, via its New York Interior Trade Inc. office. Overall, Petrobras exported \$797 million worth of petroleum products in 1986.

Quality Control

Not very long ago, Brazil was best known to the world as a country with "an awful lot of coffee".

Coffee bean inspection and quality control was how Switzerland's Societe Generale de Surveillance started out in Brazil, in 1938.

One of the world's largest and respected independent inspection services, SGS now has 1,200 employees grossing sales of \$15 million in 1986, in Brazil. "We now have divisions for agriculture and livestock, petrochemicals, mining, industrial goods and nondestructive testing," says Eric G. Bringold, executive vice president of SGS do Brasil. He adds that all but the last are directly linked to the quality Brazilian goods must have to be exported, to ensure that both buyer and seller get a fair deal.

In the United States, SGS is known for its nuclear plant inspection work, analysis of consumer goods and construction materials, asset appraisal, coal inspection, and insurance claims adjustments.

Ernani Amal Pires, head of SGS do Brasil's industrial division, explains that nondestructive testing checks the quality of Brazilian capital goods, with multinational investors in the country as the major customers.



BRINGOLD AND PIRES OF SGS: From inspecting coffee to non-destructive testing.

Large Brazilian corporations such as state oil monopoly Petrobras also seek this division's services, when buying equipment.

Doing sums

While a company such as SGS do Brasil (see above) is a wholly-owned subsidiary of a foreign company, in other service areas such as auditing, Brazilian law does not permit foreign capital ownership.

This has proven no obstacle to major worldwide groups such as Arthur Young International, however. A local company owned entirely by Brazilian shareholders bears the name Arthur Young via a professional agreement with the Bermuda-based U.S. conglomerate.

This enables the company to maintain links with the rest of the AYI network around the globe, bringing in its know-how, and, most important, servicing its corporate clients with the same level of professionalism they find elsewhere, explains Elso Raimondi, a director of the Brazilian company.

The multinational clients served in Brazil include Pepsi-Cola, McDonald's Corp., and the West

German chemicals giant, Bayer A.G.

In Brazil, Arthur Young has diversified and grown over the last 29 years. The group now comprises an auditing firm, a consulting company, and an executive search firm. AY also represents a German auditing company, Schitag, and the U.S. systems, development software company, Knowledgeware.

Brazilians and Brahmins

Bank of Boston, one of the earliest foreign banks in Brazil, considers itself "one of the corporation's greatest successes around the world, both in terms of cruzado profitability and in terms of the leveraging it permits for our entire network," says Banco de Boston president Henrique de Campos Meirelles.

The bank prides itself on being able to offer full branch services to clients coming in from abroad, who can go to the same bank they are used to working with elsewhere. At the same time, major Brazilian exporters can be assisted in their exchange dealings abroad by other branches of the bank's worldwide network.

"Even when an operation is not profitable per se in Brazil, it can generate a goodwill deal in Ohio, allowing us to expand our activities in the network as a whole," explains Meirelles.

To compensate for the government limits on the physical expansion of foreign banking networks in Brazil, foreign banks often invest heavily in developing a wide range of services. Thus a client may feel that even though a local bank has more branches, a foreign one can offer more. It is not uncommon for a Brazilian businessman to have a personal account with a local institution, while his company's is with a foreign one.

Bank of Boston has a brokerage firm, an underwriting company, a leasing firm, and a finance company. But, says Meirelles, the bank's trump card is "a management information system far superior to the competition's." This includes production of a financial newsletter considered to be an invaluable source of business news and views.

Banco de Boston ranked 19th in 1987, in terms of both total deposits and total loans, among the country's private banks.

Picture window

The French multinational Saint Gobain is another example of a successful Europe-based enterprise in Brazil. In 1960, Saint Gobain bought Santa Marina, the country's oldest glass maker.

Now, almost three decades later, Santa Marina is a \$321 million company, the largest glass-making conglomerate in South America, with a market growing five percent a year.

In 1986, Santa Marina reported a \$42.6 million profit and this year plans to invest \$220 million in two new plants.

Last July, Saint Gobain set up two joint ventures with Cispor, a unit of the American Owens group, to control two glass factories. The venture will allow the companies to efficiently develop new markets in southern and central Brazil.

BRAZIL/U.S. BUSINESS

Businesses as varied as airplanes and asphalt are flourishing in Brazil.



EMBRAER'S SILVA: Importing in order to export.

U.S. flight path

Brazil's fast-paced industrial development has taken it from being basically an exporter of agricultural goods and commodities 40 years ago, to a point where the country's state aircraft manufacturer, Embraer, sold \$322 million worth of planes abroad in 1987. Forty percent of these went to American commuter airlines.

But Embraer is also a major importer of American raw materials and equipment, including engines from Pratt & Whitney and Garrett, to the tune of \$150 million last year.

Embraer is also helping at least one American manufacturer — McDonnell Douglas — keep down costs, supplying \$120 million worth of outboard flaps for its new MD-11 aircraft.

And the technology the Brazilians use to produce the flaps is itself the result of a technology transfer agreement with another U.S. manufacturer, Sikorsky, made earlier this decade. Embraer will also be importing U.S. fiberite to produce the flaps.

The importance of the U.S. market led Embraer to set up in 1979 the Embraer Aircraft Corp., a wholly-owned subsidiary for sales,

maintenance and after-sale service in the United States, operating out of Fort Lauderdale, Florida.

The Brazilian company has been export-oriented since 1970, when it was founded by the Aeronautics Ministry. Last year, exports accounted for two thirds of total \$466 million in sales. "For this year, we predict total sales of \$650 million to \$680 million, and exports of \$410 million to \$420 million," says Ozilio Silva, the company's president.

Outer space

Last year, the Brazilian company Metal Leve furnished pistons for the Voyager space project. This year, it is taking its research and development effort to the United States.

Together with the Brazilian government, Metal Leve is investing \$3 million in a new R&D center, to be built in Ann Arbor, Michigan.

The company decided to go north because of a global trend towards putting parts product development in the hands of the suppliers themselves. Most of Metal Leve's competitors in the pistons and bearings business are already located near Detroit.

Metal Leve had \$260 million in sales last year.

The research center will employ 15 people, 11 of them Americans.

Pots and pans

The hunger for technology is such that Eluma, a copper company, trimmed its profit margins just so it could sell to American customers, and thereby gain access to the latest developments.

Eluma superintendent Luis Eduardo Campello says that he recycles the technology to compete better in the Brazilian market, because, as he points out, "of the 300 largest bluechip enterprises in the world, 280 are present in Brazil." As Eluma seeks to improve its chances of serving these customers, it must be able to supply technologically sophisticated products.

To this end, Eluma is looking for joint ventures in both rolled and extruded copper. It is also studying the possibility of purchasing technology or hiring high-tech experts from outside. For potential partners, Eluma offers access to the Brazilian market, and the possibility of acquiring cheaper raw materials from a country with lower labor costs.

Founded in 1943, Eluma began as a joint venture to produce aluminum housewares, with the Revere Copper and Brass company. Revere left the partnership in 1969. Today, Eluma has 2,000 employees and 7,000 shareholders. The company makes copper piping, bars, wire, and other copper alloys.



ELUMA'S CAMPELLO: 280 of world's largest 300 blue chip companies are in Brazil.

The volume of business Eluma is doing in the United States warrants a full-time presence there, and Eluma International, in Detroit, is just that.

This company also represents a major Brazilian auto parts manufacturer, Cofap, and the Brazilian subsidiary of West Germany's Krupp.

Brazil's market leader in rolled and



extruded copper products, Eluma exports about \$20 million a year, out of total sales of \$200 million. The United States absorbs about 40 percent of the company's foreign sales.

Nuts and bolts

As Brazil has one of the world's largest reserves of bauxite, used to make aluminum, Alcoa Aluminio is right at home there.

Since its arrival in 1970, Alcoa has invested over \$1 billion total, and now boasts 8,000 employees.

The company has grown and diversified into eleven plants spread throughout the country. These include a joint venture with Billiton Metals (a Royal Dutch Shell subsidiary), which built a mammoth aluminum complex in northern Brazil.

Alcoa Aluminio itself is a joint venture between the Aluminum Company of America and the Brazilian construction company, Camargo Correa.

Last year, Alcoa acquired two local cable companies, and opened a chain of retail hardware stores, something which is new to Brazilian consumers.

In the last eight years, Alcoa's consolidated sales have grown from \$150 million to over \$600 million, and 1988 projected sales are \$700 million.

Avon Calling

It didn't take much for Avon Cosmetics Ltda. to start ringing doorbells in Brazil.

The company arrived with \$700,000 in 1959, starting out with only 35 employees. Today, Avon is Brazil's largest cosmetics marketer. One hundred thousand sales representatives sell cosmetics, jewelry and clothing throughout the country.

They've pushed growth up to ten percent a year for the last five years.

Avon's presence in Brazil has created opportunities for many other companies, from all over the world. Its suppliers include the U.S.-based



AVON'S MAGGIOLI: Brazilian success created opportunity for U.S. suppliers.

glass and plastics manufacturer Wheaton, plus British packaging manufacturer Filtrona, and Mexico's Tapon Corona.

The Brazilian operation has also been important to Avon's global strategy, permitting it to efficiently supply smaller neighboring markets with Brazilian-made products. Over the last five years, Avon Cosmetics has exported more than \$21 million dollars worth of goods to Paraguay, Uruguay, Bolivia, Chile and Peru.

Paving the way

In this young country the size of the continental United States, there are many roads to be built. Transportation networks are vital to Brazil's development, to get agricultural produce to market and move manufactured products to faraway consumers. This is especially true because Brazil has practically no railroad system.

In 1955, Chevron (then Standard Oil of California) started a venture in the pioneer business activity of manufacturing and marketing asphalt emulsions to the then small roadbuilding industry. Since then, the company has been involved in all major roadbuilding projects, boasts

six plants, and supplies close to half of Brazil's asphalt needs. Chevron has also branched out into specialized surface materials.

Cooperation has always been a good way to do business in Brazil. In the chemicals industry, three-way joint ventures involving a foreign investor, a Brazilian private company and a government-owned company, are common.

Soon after coming to Brazil, Chevron teamed up with the state-owned oil monopoly, Petrobras, to help build its first oil refinery. Now, a Petrobras subsidiary, Chevron and a private local company are building a \$15 million petrochemicals plant in a joint venture.

Chevron vice president E. Frank Santos explained the advantages of this type of operation. "We have the government's full cooperation and access to raw materials provided by the private company. Chevron provides the technology."

Today, Chevron employs about 300 people, mostly Brazilians, who are engaged in the company's four businesses: asphalt, lubricating oil additives, petrochemicals and agricultural chemicals.



CHEVRON'S SANTOS: Successful three-way joint venture.

BRAZIL/U.S. BUSINESS

Brazil/U.S. business associations have successfully evolved over time to fit changing global realities.



EMBRACO: Factory in southern Brazil supplies 10% of world compressor market.

Full Cycle

Like many manufacturing companies in Brazil, Brastemp started out as an importer of American-made home appliances.

Thirty years later, Brastemp is supplying Americans with Brazilian-made refrigerators and freezers, sold under the *Welbilt* brand name. A U.S. service network backs up the quality of the goods marketed there.

Brastemp also manufactures kitchen stoves, washing machines, clothes dryers, and dishwashers. The company employs more than 5,000 people, who work in 3.2 million square feet of factory and office space.

Forty percent owned by Whirlpool, Brastemp is Latin America's largest maker of large home appliances.

At home in Brazil, Brastemp is also the top manufacturer, with domestic sales of \$290 million in 1986. Exports came to about \$10 million, but the company hopes to



BRASTEMP'S BONAMICO: *Welbilt* Freezers and a U.S. service network.

push these to 10 percent of total sales.

"... We have always made a huge effort to make sure that our product is marketable abroad, which means being competitive in terms of energy consumption, design, and price," says A. Cesar Bonamico, Brastemp superintendent.

Compressors for Whirlpool

Through Brastemp, Whirlpool is now part-owner and a major customer of one of the world's three top compressor manufacturers, Embraco.

In business since 1974, Embraco has gradually moved in on the international compressor market, and today claims ten percent of total world sales.

Embraco sold more than five million units in 1986, with just under half (worth \$84 million) to foreign buyers. Whirlpool is its main importer, but there are additional distributors who sell to small companies and service firms in the United States.

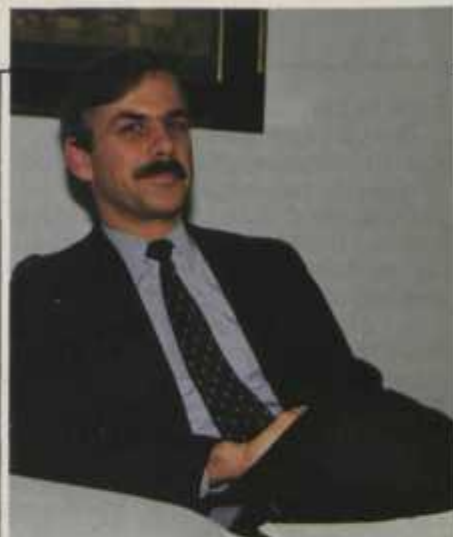
Joint account

Joint ventures are common in the banking industry. With few exceptions, government regulations only allow foreign banks to operate in the investment bank segment. Foreign investors can hold up to half the capital, but no more than one-third of voting capital. So most of Brazil's 35 investment banks are joint ventures.

Chemical Bank, the sixth ranking bank in the United States, teamed up in 1975 with Banco Noroeste, a medium-sized Brazilian financial conglomerate. NorChem provides conventional investment bank services, such as corporate and trade finance.

Under this arrangement, Chemical has gained access to the Brazilian banking market, and Noroeste has access to Chemical's international financial network.

Although by law, companies can only repatriate capital invested after 12 years, NorChem president Patrick Moren says the bank plans to lock



NORCHEM'S MOREN: Plans to convert \$150 million debt into local investment this year.

its investments in for about 20 years. "We believe Brazil will come through this period of turbulence. It is the inevitable result of political transition. There is so much potential here....," he notes.

NorChem intends to convert \$150 million of Brazil's foreign debt into local investments this year. The bank is looking carefully at investment opportunities in export-oriented businesses and mining operations. High on Moren's list are pulp and paper producers, manufacturing companies, and mining concerns.

Front seat

People in the transportation business in the United States may be the only ones who know that passengers on the San Francisco Bay Area Rapid Transit system are sitting on seats made in Brazil.

The Companhia Teperman de Estofamentos has also supplied the Washington Metropolitan Area Transit Authority, and the Aerotrain, a rapid propulsion electromagnetic vehicle made for the U.S. Department of Transportation.

Now fully represented in the U.S. market by American sales and service agents, Teperman started out in the 1960's making seats for the nascent Brazilian automobile industry.

Today, Teperman manufactures aircraft and subway seats, as well as high technology fire-protected panels, fiberglass and foam pieces for the interiors of transportation vehicles. As a sideline, the company also supplies U.S. furniture marketers with wood and leather chairs, and wrought iron terrace and fireplace equipment.

American manufacturers also supply Teperman with raw materials for the company's exported products.

Foreign sales, for Teperman, are a practical way of preparing for a more technologically advanced future, at home in Brazil. The company's American clients furnish extremely precise and sophisticated specifications, which Teperman must be prepared to meet.

Plastics future

Since Dow Chemical came to Brazil in 1956, the company has invested more than \$500 million in the country's industrial development.

Dow's 3,000 employees now manufacture industrial chemicals, plastics, consumer products, chemicals for agricultural use, and pharmaceuticals. The company

exports about 23 percent of total production.

In the last year, Dow entered Brazil's growing consumer market, via an acquired company, Spuma Pac, which makes the packaging for foods such as McDonald's hamburgers. Consumer acceptance of Dow's Ziploc bags, called "Zipy" bags in Brazil, has been much greater than expected.

Dow's Brazilian subsidiary is also integrated into the company's worldwide research and development network, with an R&D center employing 80 specialists engaged mostly in agricultural research.

Dutch treat

NMB Bank, the Netherlands' third largest commercial bank, found an ingenious way around Brazil's foreign bank charter restrictions in 1983. It bought a small Uruguayan bank that already had a charter to operate a branch in Brazil.

As Jacques Kemp, the bank's executive vice president recalls, the bank "wanted to get into Brazil, where we had a very small exposure, as part of a strategic decision to move into rather than out of Latin American countries."



DOW'S RAMON: Brazilian R&D center integrated into worldwide network.



NMB'S KEMP: Strategic decision to move into Brazil required ingenious tactics.

BRAZIL/U.S. BUSINESS

Taking advantage of debt/equity conversion opportunities is a priority for some executives.

The bank made this move just as the first wave of the Brazilian debt crisis was breaking. "The general banking community doesn't like these markets but we had a feeling for them in our corporate culture, several of our top management having lived in Brazil at one time or another," explains Kemp.

The bank pursues a strategy of staying small, being more a seller of know-how than of accounts. As a result, says Kemp, the bank is "fee-driven rather than spread-driven," looking to make money from the commission on the sale of services instead of collecting interest on loans. Those services include asset trading, debt to equity conversion, mergers and acquisitions, corporate finance, and trade finance.

The bank is especially interested in putting together investment deals, including joint ventures, stock market investment funds, and debt to equity conversions.

NMB Bank has grown tremendously since it opened a small representative office in 1978, and recently decided to increase its capital by \$20 million. The first \$10 million tranche was disbursed in August 1987.

Parker parts

When Parker Hannifin set up shop in Brazil to produce rubber products for the automobile industry, in 1972, it invested just under a million dollars.

By 1982, the company had expanded to seven product lines. In 1985, a worldwide acquisition brought it the Brazilian subsidiary of Schrader-Bellows, which increased the company's holdings and product offerings.

Parker Hannifin later developed a joint venture with Erlimp do Brasil, to produce the Racor line of products, already made under license by Erlimp. The company consolidated its Brazilian holdings when U.S. headquarters bought Racor in the United States and Erlimp in Brazil, providing an alternate source from which to supply both American and European customers.



PARKER HANNIFIN'S PARKER
SPEAKING IN SÃO PAULO:
Brazil is the key to South America.

Total investment so far comes to about \$30 million, with sales over \$60 million a year.

Parker Hannifin president Patrick S. Parker says his company views Brazil as the "key to Latin America. As Brazil goes, so goes Latin America." The region, for this company, is one of the world's four most important, as are North America, the Pacific rim, and Europe.

Wheel deal

Mafersa, a top Brazilian manufacturer of wheels, axles, trolley cars, passenger cars and freight cars, is also represented in the United States, by agents who follow U.S. business opportunities. They do all the sales work with minimal backup from Brazil.

Exports, which now are shipped to five continents, in 1987 totaled \$11 million. The United States, which bought 7,300 metro and railroad wheels last year, is only Mafersa's third biggest customer, following India and Canada.

Total sales last year were 72,000 wheels, of which 42,000 were exported and 30,000 sold on the domestic market.

Free ticket

Tourism in Brazil provides a special opportunity for U.S. travel businesses, says Ilya M. Hirsch, president of Oremar. Oremar, founded in 1953 to link foreign travel companies to the Brazilian market, grossed \$30 million last year.

Now, Oremar is looking for a U.S. link to move in on the growing incentive travel business.



OREMAR'S HIRSCH: Incentive travel a developing segment.

For four years, Oremar has been developing travel prizes sold to corporate clients for use as incentives to their own customers and business associates. This market segment is still in its infancy in Brazil, Hirsch concedes, but the recent establishment of local offices by major U.S. incentive houses indicates that it is a promising niche.

"We at Oremar are working towards the creation of our own incentive house," he says, adding that "the ideal for us would be to establish a link with a U.S. house that would give us a head start in the business."



Three-way profit

Since 1968, Braun, the West German hospital supplies manufacturer, has developed its Brazilian operation into a vital part of its U.S. business.

Laboratorios B. Braun became indispensable by manufacturing high quality materials at low cost.

Braun's U.S. subsidiary, B. Braun of America Corp., Bethlehem, Pennsylvania, owns 20 percent of the Brazilian company and has full administrative and planning responsibilities.

In Brazil, Braun manufactures disposable hospital supplies, solutions, and bioengineering equipment for processes such as hemodialysis. Many of these products are exported to Braun's other U.S. firms, which include Aesculap Instruments Corp., Burrin Medical Inc., B. Braun of Delaware, and Nova Medical Specialties.

Burrin regularly orders Brazilian-made products to specification. Sometimes, the Brazilian subsidiary exports semi-finished products, which are assembled together with U.S.-made components in the United States, and marketed there.

Braun invests great amounts of technology in its Brazilian subsidiary, in the form of technical assistance and plans, plus equipment. In this way, Laboratorios Braun keeps up to date with foreign developments so it can better supply its parent company, and also, export to Latin American neighbors, Africa and Europe.

Laboratorios B. Braun has seen 60 percent growth over the last five years. In 1984, the company installed a plant to manufacture dialysis filters. There are plans to double real sales in the next five years, and launch about 100 new products.

Motors running

The electric motors made and exported by the Brazilian company, WEG, sparked the formation of a 40-point distribution and sales network in the United States, formed over the last 13 years.

WEG's U.S. representative imports

and distributes or arranges the sale of WEG's products, and selects service centers associated with the Electrical Apparatus Service Association.

Founded in 1961 by three German-

Brazilians, WEG now employs 6,300 people. The company is a major supplier to the domestic market and exports not only to the United States, but to Europe, Africa, Asia, and Oceania as well.

XEROX

We believe in Brazil. That's why we keep on investing there.



When Xerox came to Brazil in 1965, a big business got its start. Believing in the country's potential from the very beginning, we applied resources and invested in ideas, building a major industrial complex, developing the Brazilian "yellow-and-green" know-how, applying technology and expanding our activities in this country.

Xerox went even further: we took part in the nation's life, sharing the habits and customs of the people, manufacturing products and adapting our business to the Brazilian reality.

Xerox has been in Brazil for more than two decades, and we keep on investing because we believe in this country.

Xerox: the image of evolution.

BRAZIL/U.S. BUSINESS

The companies and associations listed here, plus some that are not, are committed to, and confident in, the future of Brazil. They have sponsored this supplement in hopes of strengthening and increasing the business ties that bind the U.S. and Brazil economically, politically and strategically.

ADVERTISING AGENCIES

DPZ - Dualibi, Petit, Zaragoza Propaganda S.A.
 Fischer, Justus, Young & Rubicam Comunicações S.A.
 J. Walter Thompson Publicidade Ltda.
 Leo Burnett Publicidade Ltda.
 Standard, Ogilvy & Mather Publicidade Ltda.

APPLIANCES AND RELATED

Brastemp S.A.
 Consul S.A.
 Elgin Máquinas S.A.
 Embraco - Empresa Brasileira de Compressores S.A.
 Hora S.A., Empresa Brasileira de Relógios
 IGB - Inds. Gradiente Brasileiras S.A.
 Sharp S.A. Equipamentos Eletrônicos
 Springer Carrier do Nordeste S.A.

AUTOMOTIVE AND RELATED

Amortex Ind. e Com. de Autopeças Ltda.
 Bendix do Brasil, Allied Automotive - Div.
 Cummins Brasil S.A.
 Eaton Corporation do Brasil
 Ford Brasil S.A.
 General Motors do Brasil Ltda.
 Mangels Indl. S.A.
 Mercedes-Benz do Brasil S.A.
 Metal Leve S.A. Ind. e Com.
 Monroe Auto Peças S.A.
 Parker Hannifin do Brasil - Seal - Pneumatic - Filter
 Rockwell International - Div. Fumagalli
 Sabó Ind. e Com. Ltda.
 Teperman de Estofamentos, Cia.
 TME - Tecnologias Mecânicas e Eletrônicas Ind. e Com. Ltda.
 TRW do Brasil S.A.
 Volkswagen do Brasil S.A.
 Wabco Freios, Ideal Standard Wabco Ind. e Com. Ltda. - Div.

BANKING

Banco Bamerindus do Brasil S.A.
 Banco Crefisul de Investimento S.A.
 Banco de Tokyo S.A.
 Banco Econômico S.A.
 Banco Europeu para América Latina (BEAL) S.A.
 Banco Safra S.A.
 Bradesco - Banco Brasileiro de Descontos S.A.
 First National Bank of Boston
 Lloyds Bank PLC
 Nederlandsche Middenstandsbank NV (NMB Bank)
 Norchem - Banco Noroeste Chemical de Investimento S.A.
 Unibanco - União de Bancos Brasileiros S.A.

BEVERAGES AND TOBACCO

Heublein do Brasil Com. e Indl. Ltda.
 National Distillers do Brasil S.A.
 Partcon Participações e Controles Ltda.
 Souza Cruz Ind. e Com., Cia.
 Tabacos Brasileiros Ltda.
 Tabasa Tabacos S.A.

CHEMICAL AND RELATED

Akzo do Brasil
 Alba Química Ind. e Com. Ltda.
 Capuava Carbonos Inds. S.A.
 Chevron do Brasil Ltda.
 Ciba-Geigy Química S.A.
 Cia. Brasileira de Estireno
 Dow Química S.A.
 Du Pont do Brasil S.A.
 Gaf do Brasil Ind. e Com. Ltda.
 Grupo Ultra
 Hércules do Brasil Prods. Químicos Ltda.
 Hoechst do Brasil Quím. e Farm. S.A.
 ICI Brasil S.A.
 Loctite Brasil
 Mobil Oil do Brasil (Ind. e Com.) Ltda.

Monsanto do Brasil S.A.
 Naico Produtos Químicos Ltda.
 Olin Brasil Ltda.
 Petrobrás - Petróleo Brasileiro S.A.
 Petroquímica União S.A.
 Políalden Petroquímica S.A.
 Poliolefinas S.A.
 Rohm and Haas Brasil S.A.
 Sandoz S.A.
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Personal Management

Looking for guidelines on cholesterol, deductible education costs, investments? Some are easier to find than others.

To Your Health

By Phyllis M. Barrier

Great gobs of grease! Those people who want to clog their arteries could start with a high-cholesterol meal like this one. But the experts have a better idea.



PHOTO: ROBERT L. POLLOCK—INPHOTO

Cholesterol Counts: What Do They Add Up To?

Cholesterol. That word has entered the public's awareness in recent years. High levels of cholesterol in the blood promote atherosclerosis—hardening of the arteries—and it is our major killer, causing more deaths than all forms of cancer combined.

But once past a general awareness that cholesterol is important, most people entered a mysterious realm of "cholesterol counts" and dietary guidelines that seemed to shift constantly. For the person who simply wanted to reduce the risk of heart attack or stroke, it all could be a little daunting.

Last October, the expert panel of the National Cholesterol Education Program, an arm of the National Heart, Lung and Blood Institute, issued new guidelines that promise to bring a welcome new uniformity to a hitherto con-

fusing area. The new guidelines make it easier to decide if you have a problem—and to know what to do about your problem if you have one.

The NCEP panel recommends that cholesterol levels be measured every five years in adults over the age of 20. The panel classifies a cholesterol level below 200 milligrams per deciliter (a deciliter is about one tenth of a quart) as "desirable blood cholesterol," between 200 and 239 mg/dl as "borderline-high blood cholesterol," and 240 mg/dl and above as "high blood cholesterol."

For the first time, the guidelines take into account other risk factors for heart disease in determining if a given cholesterol level is acceptable. Hypertension, cigarette smoking, diabetes mellitus, severe obesity (more than 30 percent above ideal body weight), a family history of premature heart attack (before the age of 55), a personal history of heart disease or stroke, even being a member of the male sex—all of these factors help determine whether a given cholesterol level is really acceptable.

If, for example, your cholesterol

count is between 200 and 239 mg/dl—in the borderline range—the NCEP recommends that a second count be made and averaged with the first. If this averaged cholesterol count is also between 200 and 239, and you do not have heart disease or at least two other risk factors, you should follow a prudent diet and be rechecked in a year.

For a full 25 percent of the American population—those people with cholesterol counts of 240 and above—another test should be done to analyze the levels of the different forms in which cholesterol is carried in the blood. Low-density lipoprotein cholesterol (LDL) is considered the most dangerous.

If you have no heart disease and only one other risk factor, your LDL count can be as high as 160 mg/dl before any warning flags go up. If you have heart disease or two or more other risk factors, your LDL count should be no higher than 130.

The NCEP's dietary guidelines are the same if either total cholesterol or LDL cholesterol is too high. In fact, its recommendations should be followed by those people who want to hold their cholesterol to an acceptable level, as well as by those who want to reduce it.

There is not space here to discuss the NCEP's recommendations in detail, but cutting back on fats and oils of all kinds—and saturated fats in particular—is probably the best way to reduce blood-cholesterol levels.

Saturated fats, found in dairy products, meat fats, and palm and coconut oils, are hard at room temperature. Fats of all kinds should be reduced to less than 30 percent of calories (they make up 40 percent of the typical American's diet). You can do that by eating fish, lean red meat, poultry without the skin and low-fat (1 percent or skim) dairy products.

Even with the most stringent diet changes, some people will not be able to lower their LDL cholesterol sufficiently, and they will have to consider drug therapy.

Taking drugs from the start may, in fact, seem like the easy way out. But the easy way out really isn't very easy: The medication must be combined with a very stringent diet, it is expensive and it has side effects. ■

Phyllis M. Barrier, a registered dietitian, is nutrition coordinator for a Washington-area health-maintenance organization.

For Your Tax File

By Gerald W. Padwe, C.P.A.

Ask Not For Whom The School Bell Tolls

Many employers adopted tuition-reimbursement programs in recent years, relying on a special tax rule that excluded employer-paid or reimbursed education expenses from an employee's taxable wages. This tax exclusion for tuition-reimbursement programs expired on Dec. 31, 1987.

This does not mean that all education reimbursements are now automatically taxable and subject to income-tax and FICA withholding. But if employers with these programs do not re-examine them immediately, both employers and employees could wind up paying unnecessary taxes.

Before education reimbursements were excluded from taxable wages in the late 1970s, such reimbursements were subject to oft-litigated tax regulations requiring a business purpose for deduction by the employee. Those rules are now back with us. An employee may deduct education or training expenses that help the employee maintain present skills. A deduction is not permitted, though, for the cost of courses that will qualify the employee for a new trade, business or profession.

Consider the irony: As long as you are satisfied to maintain the skills required for your *present* position, the Treasury will subsidize that lack of ambition with a tax deduction. Show some initiative, though, and take a course to qualify yourself for a *better* position, and the deduction disappears. Congress has made an interesting, if presumably unintended, endorsement of a questionable set of values.

Employer payments for nondeductible education expenses now must be treated just like any other compensation. The employer must withhold income and FICA taxes, and the employee must include the payments in taxable income.

Assume, however, that the employ-



PHOTO: WILLIAM HEDRA—THE GEORGE WASHINGTON UNIVERSITY

Congress has tightened the rules on tax treatment of employer-paid education expenses. If you're not careful, you may wind up paying unnecessary taxes.

er's payments for employee education expenses:

- Meet the standard mentioned above—that is, the employer is paying to maintain the employee's existing skills; and
- Are treated by the employer as a reimbursement of an expense similar to any other reimbursement.

If those tests are met, the employer

need not regard those expenses as wages subject to withholding. At the same time, the employee can avoid paying income tax on all or part of the reimbursements.

Since the exclusion rules expired Dec. 31, one presently unanswered question is the tax treatment of 1988 reimbursements for 1987 education expenses—reimbursement received in January, say, for tuition paid for a late 1987 term. There are preliminary indications that the IRS will look to the year expenses are paid, not to the year they were incurred. Thus, the payment described above may not be excludable.

Short Stops And High Hops From The World Of Taxes

Employee business expenses. Employer reimbursement of employee business expenses is more important now than ever. Starting in 1987, such expenses became so-called "miscellaneous itemized deductions," and they provide a tax benefit only to the extent they exceed 2 percent of adjusted gross income.

Take, for example, the employee-paid education expenses discussed above. To the extent they meet the standard for maintaining present skills, they result in a tax deduction to the employee—but only if they (in combination with other miscellaneous items) exceed the 2 percent threshold.

If, however, the employer reimburses the employee, the new rules provide that the 2 percent barrier does not apply to the deduction side. Thus, in effect, the employee has a "wash"—equal amounts of income and expense—and the employer gets a full deduction for the reimbursement.

If the burden of the expense is left on

the employee, but it is significant for a given employee, a solution may be salary renegotiation, reducing the employee's taxable wages and having the employer reimburse business expenses.

User fees. As part of its deficit-reduction efforts, Congress has imposed an unusual set of user fees on taxpayers seeking rulings from the Internal Revenue Service.

It is not uncommon, when a proposed tax transaction is somewhat complex or the tax dollars involved are substantial, to request a private ruling from the IRS as to how it will view the transaction. Such a ruling binds the IRS to its position—as long as you have disclosed all the material facts involved.

Now it costs money to submit a request for a ruling. You will have to pay a fee (generally ranging from \$200 to \$500, depending on the nature of your request) to get your request a place in line for consideration by the IRS.

If the IRS rules adversely to your position, it still keeps the user fee. If it declines to rule at all, though, it will refund your money. ■



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

It's Your Money

By Ray Brady

Time To Hunker Down

Pity the poor investor! Worried for months that the great stock-market plunge of last fall might not be over, the investor now must face new uncertainty: the looming presidential election and what the outcome is likely to mean for the stock market.

Certainly there is no way at this stage to get more than a glimmer of an idea who will be nominated by the two major parties, much less who will be elected in the fall. Add in all the uncertainty about today's economy—is it or isn't it sliding into a recession?—and it's no wonder that a group of high-level Wall Street money managers recently told the *New York Times* that they are absolutely puzzled about where to put their money.

If the professionals don't know what to do, what should *you* do?

One piece of advice: Until the future of the economy becomes more clear, and until we know who the candidates in each party will be, make this a period for taking stock (no pun intended). Check over your long-term goals and decide if you are really headed in the right direction. And also look back. See how your past investment strategies have worked out.

This is probably going to be a time for treading water. For now, the economy is not doing all that badly. It is staying out of recession, though narrowly; inflation does not seem to be a threat; and it is unlikely that we will see another of those 500-point drops in the stock market.

But—and it's a big "but"—new Presidents always like to implement early in the first term any policies that might cause economic problems (voters have short memories and are likely to have forgotten the bad times when the President comes up for re-election). After some six years of economic expansion, we could see a recession in 1989. We



With the stock market still shaking off the trauma of Black Monday, and a presidential election on the horizon, even the savviest investment

professionals can't figure out where to put their money. No one has yet suggested turning to fortune cookies for advice, but...

could also see higher taxes, as the new man tries to get the deficit under control.

So, mark time.

But suppose you are still bloodied by the great shock of last October? After all, some of the most cautious investors around were hit hard in the crash. For example, bond funds that specialize in U.S. Treasury securities—normally the safest of investments—managed to eke out an average gain last year of just 0.9 percent. And for some outfits, like Quantitative Financial Advisers of Salt Lake City, 1987 was a real disaster. The group was only 60 percent invested in the first quarter as the stock market was rocketing upward, then got itself fully invested just in time for the crash.

If you were in that kind of investing group, a word of caution. Go slowly before you switch to another money-management group or mutual fund. That is always a temptation, of course, especially when you see that Fund X or ABC Money Managers gave investors a return of 30 or 40 percent on the year.

Any professional can tell you the reason for going slow (unless, of course, he is trying to get your account). You may put your money with a manager or a fund that was red-hot last year. But this year's market may not be one in which the fund or money manager can shine. In some years, the fund or manager with a touch for small stocks will do well. The following year, the market switches and blue chips are hot, and the person with a touch for the small stocks racks up a poor record.

If your portfolio was up for four

years but down last year, that is not a reason to move. Nobody can manage to have "up" years without a break.

Also ask yourself: Just what do I want my money to do? Perhaps you want aggressive growth. That is risky, so in good years you should have had better-than-average returns. Look over the record. If the market was up by 30 percent, say, your return should have been up by about 60 percent. Still, in that kind of investment, if the market is down 10 percent, don't be surprised if you are off by 20 percent.

You should be able to look back over the past five years and see that you averaged a compounded growth of 20 to 25 percent a year.

Were you, instead, looking for income plus some capital appreciation? Check out the Standard & Poor's 500, a more sophisticated way of measuring stock performance than the Dow Jones Industrial Average. If the S&P was up 12 percent, the kind of investment you had should have been up by around 15 percent.

If you are investing in stocks for current gains, there is another measure you can try. Look up the yield on a 10-year government bond (the safe kind, whose price is not nearly as volatile as that of a 30-year government bond). You should look for a return of at least three percentage points more than you can get on that 10-year bond.

Whether it's a fund or some other form of money management, it should give you at least three percentage points more than the U.S. government, or it isn't worth the risk. **16**



Ray Brady is the business correspondent for CBS News.

Marketing With A Twist

By Nancy L. Croft

You've put most of your savings in a business arrangement that goes sour, leaving you the sole owner of a failing company. What do you do?

Business is so slow that your sales people are dozing, and you face a stack of bills that were due yesterday. You need customers—fast. What do you do?

As a newcomer to a small community, you have trouble winning the townspeople's trust. What do you do?

The family store is on the street floor of a downtown building, the storefront is drab; the product is unexciting. How do you get passersby to take notice?

These are just a few of the marketing challenges encountered by owners of small and start-up businesses. While some wish for a miracle to bring in new business, others work successfully to put a new twist on otherwise ordinary marketing strategies.

Lisa Renshaw, for instance, used coupon fliers to rescue her faltering Baltimore parking-garage-management company, Penn Parking. Five years ago Renshaw found that she didn't have the money she needed to plow into the company. Instead of giving up, she launched a low-cost marketing campaign to attract new customers—business travelers using the nearby Amtrak station.

She designed a pocket-size flier that included a coupon for a free car wash after parking in Renshaw's garage five times—a strategy to get travelers used to parking there. She personally distributed fliers at the train station.

"By the fifth time of parking they were used to the garage and the service," says Renshaw. "So they came back the sixth and seventh and eighth times and started paying for the car washes," which are \$6.

Judy Greason also understands the power of low-budget marketing for a small business. With a \$300 investment, she established the Bay Window Boutique, a women's-apparel store in Rye, N.Y. The store's sales occasionally lag, however, because it is located off the main shopping street in Rye.

When such lulls occur, Greason has her employees don newly arrived fashions and put on impromptu fashion shows for customers of the hair salon next door. "The customers love it, and



PHOTO: ALAN DOROW

When business is slow at the Bay Window Boutique, in Rye, N.Y., an employee is sent to the salon next door to drum up sales by putting on an impromptu fashion show.

the salon owners love it because we're entertaining their customers," says Greason. "It's amazing how much business we do get from that."

But what if the residents aren't as receptive to your business? That was Joan Bedell's problem when she set up a Pak Mail franchise in Incline Village, Nev., a town of 6,000 near Lake Tahoe.

Residents had never heard of Pak Mail, a packaging and shipping service, and were slow to warm up to a business owned by an outsider.

How did she win friends and bring in business? She got to know her community. She asked the high school's band to play at her opening. Parents attended and were introduced to Pak Mail.

"I really had to sell myself," says Bedell. "You have to get involved in the community to survive."

Some established businesses face a different problem—how to enliven a product that some might think is dull. Barbara Fine, for instance, creates a new look every two weeks for her Washington, D.C., business, the Map Store. "You can give your store a whole new image by changing it from the out-

Is business slow? Is your product unsexy at best? Well, don't wait for a miracle to happen. Try innovative marketing.

side with your window display," she says. "And people notice when something is different."

Fine discovered a marketing challenge when she took the reins of her family's business 15 years ago. Maps "are typically perceived as flat and boring," she says, and she wanted to make them sexy enough to lure passersby into her store. Fine, an artist, started creating product displays in the store's large picture window as an alternative to expensive newspaper ads.

One display was a gray, foam mannequin posed as if taking a shower, with a scrub brush in one hand and a shower cap on its head. Hung in the foreground was a clear shower curtain imprinted with a world map. "We try to catch people's eye, make them think, make them laugh," says Fine.

Other displays included Thanksgiving turkeys made with maps of Turkey, and a dummy in winter exhibiting a map of the Caribbean.

"Because maps are static and one-dimensional, I try to put something three-dimensional with them to draw people's eye," Fine says. She has established a following for her work, and she has "customers who make it a special point to come in the store to say whether they like the display." And many now tell her that "they want to know about that map in the window." ■

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Should Taxpayers Bear Costs Of AIDS?

More than 50,000 Americans have contracted AIDS, and treating each of them for their fatal illness will cost an average \$50,000, according to Otis R. Bowen, Secretary of Health and Human Services. Some people say that, because AIDS is a major public-health

problem, government should assume more of the financial burden of AIDS treatment to prevent already-high insurance costs from skyrocketing. Their opponents reject the notion of a new federal program until the budget deficit is reduced significantly. Should taxpayers be forced to bear more of the financial burden imposed by AIDS?

2. Should Workers Be Tested For AIDS?

The insurance and legal costs incurred by employers of AIDS victims can be astronomical. Therefore some business people favor pre-employment screening and routine testing for exposure to HIV, the virus that causes AIDS. Those testing positive would not be hired. Op-

ponents of testing believe it would violate privacy rights and, since not all carriers of HIV develop AIDS, it could cause panic. Should employees be tested for AIDS and should results be disclosed to their employers?

3. Would An Employee With AIDS Hurt Sales?

There is widespread belief among business owners that having an employee with AIDS would reduce their revenues as well as increase their expenses. About half of employer respondents to a recent national poll expressed fears that sales would be affected adversely

if people in their community learned that they had an employee with AIDS. Do you believe that public knowledge that you had an employee with AIDS would reduce your revenues significantly?

Verdicts On February Poll

Here is how readers responded to the questions in the February issue.

| | Yes | No | Undecided |
|--|-----|-----|-----------|
| Should firms be helped to form pension plans? | 65% | 22% | 13% |
| Should Congress intrude on operations of the CPSC? | 19% | 69% | 12% |
| Should essential services be privatized? | 66% | 23% | 11% |



Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

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Home, Sweet Modular Home

By Sharon Nelton

Just as tourists seek the Detroit site where Henry Ford first mass-produced his Model T or flock to Kitty Hawk, N.C., to see where the Wright brothers launched the first powered flight, so will they trek to Columbus, Ohio, 50 or 100 years from now to visit the scene of the trailblazing work of Austin Guirlinger.

At least that's what a number of Guirlinger's employees think.

"He comes to work to do something that no man has ever done before," says one associate. "And that something is to do for housing what has been done for the automobile."

Guirlinger is president and chief executive officer of Cardinal Industries, a privately held company that is the nation's leading manufacturer of modular homes.

His goal: to mass-produce shelter, driving the cost of housing down while maintaining quality. To achieve that aim, everything has to be standardized, and Guirlinger settled long ago on a 12-by-24-foot cube as his basic building block.

He knew he would also have to produce in volume large enough to permit manufacturing efficiencies. But to do that, he would have to attract a large number of customers, and they are still hard to come by in a world wedded to the conventional "stick-built" house.

To solve that problem, Guirlinger became his own best customer—creating, owning and operating more than 800 apartment communities; the Knights Inn motel chain, with 17,610 rooms; 17 Arbogate Inns; and 7 Cardinal Retirement Villages, as well as office complexes and, soon, student housing. Located primarily in 22 states east of the Mississippi, all properties are one-story, and all are composed of the basic 12-by-24-foot modules.

Although manufacturing is the foundation, it is now a relatively small part of Cardinal, which is projecting \$767 million in revenues this year.

"Austin's ability to have conceived not only a product but also a complete system by which that product would be brought into the marketplace and then control it once it's there is the real key to what he has done," says Vic Steinfelds, Cardinal's vice president of operations.



PHOTOS: T. MICHAEL REZA

If Austin Guirlinger has his way, houses—like cars—will be mass-produced, using state-of-the-art technology and materials.

Using cubes like those at left, Austin Guirlinger has created apartments, office buildings and single-family homes like those in the development above.

"It's like Einstein. He was so far ahead of his time that he could no longer depend on the basic existing math systems to deal with some of the equations he had to solve. So he had to develop his own math."

Guirlinger doesn't look like someone out to make history. He is, at 61, an unpretentious man with receding hair who wears no-nonsense eyeglasses and short-sleeved shirts.

During a two-hour interview, he is polite and pleasant; he pours coffee for us, but he makes no attempt to charm or impress. He is relaxed, feet propped up on a chair in a conference room made of the Cardinal cube.

He seems so mild-mannered that we ask two senior executives over lunch how such an apparently uncharismatic person can provide the leadership needed to build a company to 11,500 employees.

"He's more than charismatic," says Jeff Thompson, vice president for corporate communications.

"The capacity to dream and to see so big, so far, so deep, to see where no man has ever seen before—that's part

of the legacy of Austin Guirlinger," adds Larry Rosenthal, vice president of apartment products and a 17-year veteran of the company.

Not long ago, Thompson says, another writer was interviewing the boss. Guirlinger picked up a length of window frame and said it was made of structural plastic foam and was created, like spaghetti, by an extruding process. It reduced labor by 50 percent, and there was no waste. He handed the piece to the writer and said, "You're holding the future in your hands."

"I don't know how the reporter perceived it," Thompson says, "but I almost got goose bumps all over me."

Part of Guirlinger's genius, Cardinal executives say, is that he is "unfettered by education."

One of nine children, he grew up in Detroit and after high school he went to Alaska, where he worked briefly on the salmon traps and in the logging industry. He enlisted in the Army just in time to serve with the occupation troops in Japan at the end of World War II.

Back in Detroit, he lasted half a se-

LESSONS OF LEADERSHIP

Home, Sweet Modular Home

Guirlinger's rapport with employees on the production line has been described as "electric." He enjoys

talking with workers such as those shown here assembling walls in Cardinal's Sanford, Fla., factory.

mester in junior college. "It just wasn't meant for me," he says.

Jobs that followed shaped Guirlinger's future. Working in a General Motors plant gave him, he says, "the opportunity to observe the assembly of things in a logical manner." Sales jobs for two housing manufacturers introduced him to prefabricated housing.

The notion that homes, like automobiles, might be mass-produced began to get a grip on him.

One job took him to Columbus, and it was there in 1954, with \$30,000 in backing from a partner, that he started Cardinal Industries in his basement. He was 27 years old.

He began producing a forerunner of his current module, marketing it to developers who were building in the Columbus suburbs. The city, watching tax dollars slip away, ruled that no utilities would be provided unless the land was annexed to Columbus.

Guirlinger lost his customers "almost overnight" and turned to manufacturing roof trusses and other housing components.

His next chance to work on mass-produced shelter came nearly 15 years later, in 1969, when, prompted by a federal housing program called Operation Breakthrough, states began adopting building codes that encouraged the industrialization of the housing industry. By 1970, Cardinal was already manufacturing its cube and starting the long process of educating the public about its product.

In fact, many officials who once fought against Cardinal developments have changed their minds.

One of them is Morris Becker, mayor of Eastlake, Ohio, a community of 22,500 on Lake Erie. Becker's administration objected to Cardinal's plans for an apartment development, contending that it did not conform to Eastlake's building codes. But the Ohio Supreme Court ruled in favor of Cardinal, saying that state standards for industrialized housing prevailed.

The development has grown to 230 attractive units. "This is one time I'm glad we lost," says Becker.

One reason Cardinal developments gain acceptance is that the company spends \$29 million a year on landscaping. Of that, \$1.5 million goes to the company "flower program," devised by Guirlinger's wife, Donie, to beautify Cardinal buildings.

Cardinal planted more than 4 million



PHOTO: T. MICHAEL KEZIA

flowers last year. "My wife and I like flowers, so we figure we'll impose them on the rest of the world," says Guirlinger.

Guirlinger is so committed to standardization that he won't change anything in his modules unless there is a compelling reason. He once was in a meeting with executives from a giant corporation that wanted to buy more than 200 apartments, and they told him to get rid of the ceiling lights in the bedrooms. He refused; they persisted. Finally, Guirlinger gathered his things, said "I think this meeting is over" and left them sitting in the meeting room.

Then there was the time that Larry Rosenthal got rid of the plastic door-knob used in the Cardinal module and replaced it with a more conventional metal knob. "Bring it back!" Guirlinger demanded. People will never get used to new materials unless they use them, he said.

Guirlinger is said to view himself only as an instrument for making his vision reality. When a photographer was taking a picture of him for an annual report, Guirlinger was perched on a catwalk next to a piece of major equipment in Cardinal's Columbus factory. Looking at Polaroid photos of the setup, he kept ordering the photographer to stand farther and farther back because he wanted "to see the machine!" When the picture finally met with his approval, says Jeff Thompson, Guirlinger was "a peanut."

The man who emerges from such anecdotes is an entrepreneur who has made the difficult transition to being a leader. He also has an uncanny knack for surrounding himself with, and winning the loyalty of, just the right people to manage a group of complex businesses.

"He makes them feel like they're a

part of the success that we have and gives them a lot of freedom in being able to accomplish their goals," observes Bob Guirlinger, 33, the oldest of the five Guirlinger children and manager of Cardinal's Baltimore plant. Says Steinfeld: "I think we work for his respect because we have such respect for him."

Cardinal has begun to expand west of the Mississippi. It has developments in Texas and Missouri and will open a new plant—its sixth—in Dallas next year.

Guirlinger says he has only scratched the surface of his dream. Cardinal produces not quite 1 percent of the shelter starts (including mobile homes and light commercial facilities) in the United States.

Guirlinger's aim is to increase that to 10 percent, or about 200,000 shelters a year, making Cardinal a multibillion-dollar company.

"A lot more years have to go by before we reach a truly sophisticated level of industrialization of housing," he says. "It's what every industry has to go through. There must be an evolution; there can't be a revolution."

The *Orlando Sentinel* reported in 1984 that Guirlinger had no corporate jet: "He flies the commercial airlines." That has changed. Guirlinger owns a *personal* jet, an Israeli West Wind purchased a year ago and piloted by two ex-Army fliers.

Shortly after 3 p.m. on a recent Friday, the plane moved down a runway, building up speed for a lift-off to take the boss to a plant—and a second home—in Florida. It climbed surely into the air, its sleek, high-tech shape catching the sun—a fitting metaphor, it may be, for Austin Guirlinger and his company, as they soar to a place in history. ■

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Minimum Wage



PHOTO: ABIGAIL HEYMAN—ARCHIVE PICTURES

In spite of conclusive evidence that previous increases in the minimum wage have reduced jobs and boosted inflation, minimum-wage legislation may soon reach the House floor. H.R. 1834, like its companion bill in the Senate, S. 837, would raise the minimum wage to \$4.65 per hour over three years, and would index it afterward to 50 percent of the average manufacturing wage.

The last minimum-wage hike resulted in a loss of about 644,000 jobs, as employers hit by the new financial burden cut then-current jobs or canceled plans for new openings. This probably will happen again if the wage rises. The resulting unemployment particularly would hurt teenagers looking for their first jobs. (Workers ages 16 to 24 now account for nearly 60 percent of those

earning the minimum wage or less.)

When the wage floor is lifted through government intervention, two actions are likely: Salaries of those not making the minimum wage will increase (to maintain the promotion ladder), and employers will pass along a part of their rising labor costs to consumers. Wage and price inflation attributed to the last minimum-wage hike came to 6.5 percent over four years.

Contact your representatives and senators to urge them to oppose legislation raising the minimum wage, and to support instead ways to stimulate job creation, such as tip credit allowances and a lower youth minimum wage.

Capital-Gains Tax Reduction



PHOTO: PETE SALOUTIS—CLACK/CHICAGO

The 1986 tax-reform package increased the maximum federal tax on long-term capital gains by 65 percent for individuals and by over 21 percent for corporations. Such a high rate of taxation deters risk-taking by investors, thus blocking the flow of capital through the economy—and consequently slowing down the creation of new businesses and jobs. The U.S. economy does not need this new impediment to growth as it faces tough international competition. All of America's major trade rivals impose a lower tax rate on capital gains, while Japan, West Germany, South Korea and Taiwan do not tax them at all.

Individuals and families suffer, too.

The higher tax makes it more expensive to sell stocks or homes, in effect "locking" many families into their investments or into homes they may have outgrown.

The tax hike's purpose may have been to fight the deficit, but it will not increase revenues. The tax is collected only when an asset is sold. So encouraging sales of assets—by lowering the tax to 15 percent, for example—could raise up to \$8 billion the first year and \$11 billion the next year by increasing the number of times the tax is collected.

Contact your senators and representatives to urge them to support a lower tax rate on capital gains.

Mandated Health Benefits



PHOTO: DIANA G. RASCHÉ—CLACK/CHICAGO

Though employers provide 84 percent of American workers' health-insurance coverage, some members of Congress seek a federal mandate. Two bills introduced last session, H.R. 2508 and S. 1265, would force employers to provide comprehensive health-care coverage for all workers and their families—regardless of the benefits packages they now enjoy.

In fact, mandating health-care benefits would probably cause employers to reduce wages or benefits, either of which may be desired or needed more

by employees. For small and medium-sized businesses, the added financial burden may force more drastic responses, such as layoffs or even closing of firms. The jobs and firms lost would mean lower federal revenues and higher social spending—a sure way to exacerbate the budget deficit.

Contact your senators and representatives to urge them to oppose mandated health-care legislation, and to support alternatives that lower health-insurance costs while allowing choice in benefits packages.

Editorials

In this supercharged political season, business must brace itself for a clash with organized labor's antibusiness agenda.

Labor's Legislative Push Is Under Way

Showdown time is approaching for the sweeping, antibusiness agenda being pressed by organized labor.

The outcome will have a major impact on the fate of large numbers of small businesses unable to absorb the heavy costs that would be added if even some of the labor-sponsored bills are passed.

The most important of those bills would:

Mandate such employer-paid benefits as health care and parental/medical leave;

Raise the minimum wage;

Add requirements for dealing with workplace risks;

Move toward comparable worth as the basis for setting wages;

Bar the dual shop (union and non-union operations within the same company) in the construction industry;

Extend coverage of the inflationary Davis-Bacon Act;

Curtail management rights to close plants or lay off workers as economic conditions require;

Bar the use of polygraphs for pre-employment screening and investigation of workplace incidents.

Although none of these bills won approval of both houses during the first term of the 100th Congress last year, it would be a serious mistake to assume that the threat to business has eased.

Each of the measures has made some progress, from hearings to approval in one house.

All are still very much alive.

The threat to business from passage of these measures is much more serious this year because of the politically charged atmosphere in which they will be considered.

Big labor will be demanding strong support for its agenda from those members of Congress it backs for re-election. Other special-interest groups will also be applying political pressure for passage.

In this supercharged political season, it is critical that business remain vigilant to the threat that the labor agenda



PHOTO MICHAEL PETTYPOOL—UNIPRODU

Business must remain vigilant as labor pressures the members of Congress it backs for re-election to support its legislative wish list.

poses not only to individual businesses but also to the overall economy. Every one of those bills would impose massive costs or heavy new regulatory bur-

dens—probably both—on American businesses.

This is a time for grass-roots action, for making sure that members of Congress know how all their constituents—not just the labor unions and other special-interest groups—feel about proposals that threaten the well-being, if not the survival, of the small-business people of this nation.

"From Lighthouses To Laser Beams"

That's the highly appropriate title given to the history of the U.S. Commerce Department, being published as part of its 75th anniversary observance this year. Overseeing lighthouses was one of the principal responsibilities of the department, while its activities today deal with such high-tech areas as laser beams. Secretary of Commerce C. William Verity notes in the introduction that between those eras, the department's many other responsibilities have given it "an increasingly important role in the national workplace and the international marketplace."

In addition to divisions committed specifically to fostering domestic and international trade, the department's units include the Patent and Trademark Office, the National Bureau of Standards, the Census Bureau, the National Oceanic and Atmospheric Administration (it includes the weather service,

among other functions), the Economic Development Administration, the National Telecommunications and Information Administration, the U.S. Travel and Tourism Administration and the Office of Productivity, Technology and Innovation.

Several other agencies that began in the department have been given independent status as their areas of responsibility expanded. Among them are the Federal Trade Commission, the Federal Communications Commission, the Federal Aviation Administration and the Department of Transportation.

Although the challenges facing the department have changed over 75 years, it deserves an anniversary salute for the way it continues to carry out the assignment it received at its creation: "To foster, promote and develop the foreign and domestic commerce . . . of the United States." ■



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